

# HOUSE BUDGET COMMITTEE

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February 7, 2003

## **Big Tax Cuts, Harmful Program Cuts, and Record Deficits:**

## **Summary and Analysis of President Bush's 2004 Budget**

*This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and may not necessarily reflect the views of all members.*

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## **General Notes:**

- All years are fiscal years unless otherwise noted.
- Throughout the document, the Congressional Budget Office is abbreviated to CBO. The Office of Management and Budget is abbreviated to OMB.
- Unless otherwise noted, funding levels for discretionary programs are stated in budget authority, and funding levels for entitlements and other direct spending programs represent outlays.
- As of the printing of this document, Congress has passed 2003 appropriations bills only for Defense and Military Construction. Accordingly, for Defense and Military Construction programs, unless otherwise noted this analysis compares the President's 2004 request against the amount that CBO estimates would be needed for 2004 to maintain purchasing power for these programs at the 2003 level.

The rest of the appropriated budget currently is operating under a continuing resolution (CR) that freezes programs at their 2002 enacted level. Accordingly, for all programs lacking 2003 enacted levels, unless otherwise noted this analysis compares the President's 2004 request against the amount needed for 2004 to maintain purchasing power for these programs at the 2002 level. This comparison relies on estimates contained in CBO's August 2002 baseline report.

- Numbers in tables may not add due to rounding.

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## Overview

President Bush's 2004 budget request is the most fiscally irresponsible in American history. It proposes \$1.5 trillion in new tax cuts, every penny of which is funded by increased government debt. While proposing tax cuts largely benefitting our nation's most prosperous citizens, it imposes deep cuts in many programs benefitting America's most vulnerable. It would repeal federal income tax on most investment income, and estate taxes on inherited income, leaving only wages subject to tax. It also would convert low-income mandatory benefits like Medicaid and low-income housing into block grants, leaving the vulnerable to the whim of the states. As a news story in the *Washington Post* put it, "President Bush appears to have stepped back from his 'compassionate conservatism' agenda and picked up the fallen standard of the Reagan Revolution....The words, 'ambitious and bold — even radical' — rolled off the tongues of supporters yesterday."

The \$5.6 trillion unified budget surplus projected less than two years ago is gone. In its place, the Administration offers a budget with a \$2.1 trillion deficit for the same ten-year period — almost an \$8 trillion fiscal reversal in just two years.

- The Administration's budget spends the Social Security Trust Fund surplus for as far as the eye can see — with the baby boom's retirement beginning in just five short years.
- In the face of the worst fiscal reversal in U.S. history and a declining economy, the Administration's response is to propose more of the same failed policies.
- The President continues to pursue large, multi-year tax cuts that do little to stimulate the economy now, while short-changing homeland security, education, transportation, health care, and law enforcement.
- To make the budget appear less dire, the Administration uses gimmicks and double-counting, even declining to show the long-run fiscal deterioration its budget causes.

### Surplus Declines \$7.8 Trillion Under Administration Policies

Unified Budget Surplus, Trillions of Dollars

	2002-2011
February 2001 Base	5.644
July 2001	3.113
February 2002	0.739
July 2002	0.444
February 2003	-2.122

## Record Deficits

***The budget worsens the deficit outlook*** — The budget calls for total deficits of \$304 billion in 2003 and \$307 billion in 2004, exceeding the \$290 billion record of 1992, in the first Bush Administration. Without the President’s policies, the unified budget would return to surplus in 2006, according to OMB. But with the President’s policies, and within the five-year window that the Administration uses to cloak their long-term effects, the unified budget remains in triple-digit deficit every year. Beyond the budget’s truncated five-year projection, the budget almost certainly stays in deficit, assuming enactment of the President’s long-term tax-cutting agenda.

Even more telling, the budget exclusive of the Social Security Trust Fund surplus, which is closer to an operating budget of the federal government, is in deeper deficit: \$468 billion in 2003 and \$482 billion in 2004. Over the Administration’s revealed five-year budget window, the non-Social Security deficit remains above \$400 billion in every year, and in the final year of the window, it is \$433 billion and rising. There is no sign of any improvement in the budget, and no plan that might lead to improvement.

***Record deficits that again leave no margin for error*** — The Administration tries to justify its burgeoning budget deficits by arguing that, as a percentage of the GDP, they are smaller than the largest deficits during the earlier period of Republican rule in 1981 through 1992. This argument misses several key points. The defense that “it could be worse” sets the bar far too low, especially in light of the impending retirement of the baby-boom generation.

<b>Budget Deficits 2002-2008</b>								
Billions of Dollars								
	‘02	‘03	‘04	‘05	‘06	‘07	‘08	‘04-‘08
On-Budget Deficit	-317	-468	-482	-407	-412	-406	-433	-2,140
Social Security Surplus	160	163	175	199	211	228	243	1,056
<i>Unified Deficit</i>	<i>-158</i>	<i>-304</i>	<i>-307</i>	<i>-208</i>	<i>-201</i>	<i>-178</i>	<i>-190</i>	<i>-1,084</i>

The President’s policies pile up public debt, though he promises to maintain debt as a constant share of the GDP. Should anything go wrong — for example, a reversion to a double-dip recession; an upward spike in interest rates; a costly budgetary event such as a natural disaster; or continued errors in the Administration’s optimistic projections — then the power of compound interest will push the budget ever deeper into the deficit and debt ditch just as the baby boomers begin to retire.

***The budget breaks Republican promises by spending the Trust Fund surpluses for as far as the eye can see*** — Just three years ago, the federal budget achieved its first surplus without reliance on either the Social Security Trust Fund surplus or the Medicare Trust Fund surplus. Now, after just two years in office, the Bush budget spends the entire Medicare Trust Fund surplus, the entire Social Security surplus, and piles up further debt beyond that — in each year for the foreseeable future.

In 1994 the Republican “Contract with America” contained a solemn pledge that Republicans would pass a Constitutional amendment requiring a balanced federal budget. Just two years ago, Republicans promised that they would never touch the Social Security Trust Fund surplus or the Medicare Trust Fund surplus. Rather, they promised to protect those surpluses in a “lockbox,” and use them to retire debt and prepare for the retirement of the baby-boom generation. Only a year ago last summer, the Administration’s budget proclaimed that “maintaining a surplus at least the size of the Social Security surplus” was the “threshold condition of public finance.”<sup>1</sup>

Now, with the President’s policies, the Social Security Trust Fund surplus will be dissipated until well after the force of the aging population begins to hit the budget. The Bush Administration and Congressional Republicans have dissipated the entire budget surplus that was to provide the resources needed to safeguard our retirement programs. With the beginning of the baby boom’s retirement just five years away, this budget leaves no time to recover.

## **Continuing Failed Policies**

***The Administration’s only answer to mounting economic problems is to propose what has already failed*** — Two years ago, Republicans assured us that their tax cuts would increase economic growth. Nonetheless, these policies failed to prevent the loss of 2.4 million private-sector jobs since the President was inaugurated. Rather than admit that the Republican tax-cut agenda has failed, the new budget cuts taxes by an additional \$1.5 trillion over the next ten years (once one includes the budgetary costs of refundable items). With the interest spending on higher public debt that this causes, these tax cuts’ impact on the budget for 2004 through 2013 is more than \$1.9 trillion.

***The President’s budget offers only a trivial 2003 economic stimulus*** — The most recent version of the Administration’s putative “economic growth” package puts less than 5 percent of its budget impact in 2003, when the struggling economy needs it. The 2003 impact of all the President’s tax-cut proposals — which come to about double the size of the “growth” package alone — is only 2.0 percent of their 2003-2013 cost.

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<sup>1</sup>*Mid-Session Review of the Budget of the United States Government*, August 22, 2001, page 2.

The Administration may not believe the economy needs stimulus, given its economic predictions. The President’s budget assumes that real growth will average 3.4 percent over the four quarters of this calendar year, essentially the same as its pace during the last four years of the Clinton Administration. Of course, if this growth does not materialize, then the budgetary costs of the President’s tax cuts will be even larger.

***The President calls for tax cuts irrespective of conditions*** — Two years ago, the Administration argued that projected surpluses were so huge and so certain that only back-loaded, multi-year tax cuts would avoid the dreaded possibility of paying off too much public debt. One year ago, the Administration argued that, despite the re-emergence of budget deficits and growing debt, only back-loaded, multi-year tax cuts could get the economy moving. Now, facing huge, chronic deficits, the Administration proposes even larger back-loaded, multi-year tax cuts, claiming that they will return the budget to balance in the very long run.

<b>The Bush Administration’s \$4.4 Trillion Tax Agenda</b>	
	<u>2001 – 2013</u>
2001 Tax Cut	\$1.349 Trillion
March 2002 Stimulus Package	\$0.042 Trillion
January 2003 “Growth” Package	\$0.615 Trillion
Other Tax Cuts in Budget	\$0.692 Trillion
Protect Middle Class from AMT	\$0.681 Trillion
<b>Direct Effect of Bush Agenda</b>	<b>\$3.379 Trillion</b>
+ Increased Debt Service	\$1.000 Trillion
<b>TOTAL IMPACT ON DEFICIT</b>	<b>\$4.379 Trillion</b>

## **Unwise Priorities**

***Leaving the most vulnerable behind*** — The President’s budget cuts or freezes many programs for the low-income population. For example, it freezes funding for child care and most welfare funding; provides no new funds for the inadequate unemployment insurance extended benefits during the current economic slowdown; eliminates funding for rehabilitation of distressed public housing; erodes the Public Housing Operating Fund and funding for housing for the elderly and disabled; and zeroes out the Rural Housing and Economic Development program. In other instances, it gives states the option to convert key low-income support programs into block grants. These programs include Medicaid and the State Children’s Health Insurance Program (SCHIP) – programs that provide health care for all eligible low-income disabled, elderly, children, and families – and the government’s primary rental housing voucher program. Sound federalism would require that low-income support be provided uniformly across the country, so that the most vulnerable citizens are not subject to regional economic weakness, and states are not given an incentive to respond to hard times by cutting low-income benefits.

***Inadequate support for the core functions of government*** — The President’s budget provides too little funding for all appropriated programs and transportation obligation limitations to keep up with inflation in program costs. Domestic non-homeland security funding endures an even larger reduction in purchasing power. And this funding shortfall is projected to continue and grow for the duration of the budget. This underfunding requires the counterproductive program cuts in the President’s budget, such as the shortfall for the landmark No Child Left Behind Act, and the termination of numerous education programs.

**Budget Summary by Category**  
(In Billions of Dollars)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2004-08</u>
Outlays:								
Discretionary:								
Defense (050).....	349	376	390	410	423	436	460	2,119
Nondefense.....	385	416	429	440	447	455	466	2,237
Total, Discretionary...	734	791	819	850	870	891	926	4,356
Mandatory:								
Social Security.....	452	474	493	512	533	559	587	2,684
Medicare.....	228	241	255	272	301	323	345	1,497
Medicaid and SCHIP....	151	167	185	199	217	234	254	1,089
Other.....	274	305	301	307	319	329	344	1,599
Total Mandatory.....	1,106	1,188	1,234	1,289	1,369	1,445	1,531	6,868
Net Interest.....	171	161	176	204	225	240	254	1,099
Total Outlays.....	2,011	2,140	2,229	2,343	2,464	2,576	2,711	12,323
Receipts.....	1,853	1,836	1,922	2,135	2,263	2,398	2,521	11,239
Deficit.....	-158	-304	-307	-208	-201	-178	-190	-1,084
On-budget deficit.....	-317	-468	-482	-407	-412	-406	-433	-2,140
Off-budget surplus.....	160	163	175	199	211	228	243	1,056

Source: *Fiscal Year 2004 Budget of the U.S. Government*, Table S-2, page 312

## **The President's Budget Fails to Meet America's Fiscal Challenge**

This Administration fails to meet America's fiscal challenge by proposing a budget that mandates enormous budget deficits for the indefinite future.

***Cloaking long-term future deficits*** — The nation faces unprecedented budgetary pressures, caused by the impending retirement of the baby boom beginning in just five years, and the subsequent continuing forces of population aging and declining birth rates.

Yet, the Administration proposes a budget with large deficits for the foreseeable future, with no proposed remedy. Furthermore, the budget is truncated to a five-year time frame, ending just as the first wave of the baby boom will begin to collect Social Security benefits in 2008. Yet, the Administration refuses to say how it would address potentially unsustainable large deficits. The Administration claims that its newly shortened five-year budget is necessary because ten-year budget projections are unreliable. This position is hard to justify when the Administration proposes new tax cuts that would take effect eight years from now.

***Deficits not caused by homeland security*** — The Administration tries to justify its large budget deficits as the result of the cost of maintaining homeland security. However, with budget deficits exceeding \$300 billion per year, and total homeland security spending of little over \$40 billion per year, it is clear that homeland security obligations are not causing the deficits.

Furthermore, the Administration states, almost certainly correctly, that the war on terrorism will continue indefinitely. If that is true, then the nation cannot afford to ignore budgetary reality into the indefinite future, even in the name of homeland security. At some early date, the bills must be paid, and the resulting hard choices must be made. It is unwise for the Administration to pursue this misguided budgeting while the clock keeps ticking on the baby boom's retirement.

***Spending cuts should be identified*** — The Administration argues that the budget can be brought back to balance with discipline on spending. But the Administration does not propose such spending discipline in its budget; its projected deficits continue unabated into the indefinite future. If the Administration wishes to claim that spending restraint is the answer, then it should describe what that spending restraint would entail.

The Administration already assumes that non-defense, non-homeland-security appropriations will fall behind inflation each year for the next five years — and the non-Social Security deficit still exceeds total non-defense appropriations. And given the Republicans' failure to pass last year's appropriations through a House of Representatives in which they hold a majority, and the likelihood that those appropriations will pass this year only with the implied promise of a later supplemental bill that will quietly increase spending to acceptable levels, the likelihood of more than five succeeding years of repeated inflation-adjusted spending cuts is already remote. Where the Administration plans to find hundreds of billions of dollars of additional acceptable spending cuts is a question that they have not answered.

## The Debt Tax

***The budget calls for ever-increasing public debt*** — Instead of approaching the fiscal challenges of the baby boom's retirement with declining public debt and stronger government finances, the President's budget increases debt for as far as the eye can see. Two years ago, the President claimed that his policies would retire all available public debt by 2008, and then would proceed to accumulate assets to drive the government's net indebtedness to zero. Now, the President's own budget predictions show public debt in 2008 over \$5 trillion and rising.

***More than \$1.5 trillion in additional spending for interest on the public debt will burden our children with a "debt tax"*** — The President proposes additional tax cuts approximately equal to the \$1.35 trillion of tax cuts passed in 2001, despite the fact that these policies would leave the budget in deficit for the indefinite future. The President cannot now pay for his tax cuts with a projected surplus, as he claimed to do two years ago. Instead, he will borrow money from America's children and grandchildren to provide a tax cut today. The President's new tax cuts add directly, dollar-for-dollar, to the deficit, the public debt, and the burden on our children and grandchildren who will have to service that debt in perpetuity.

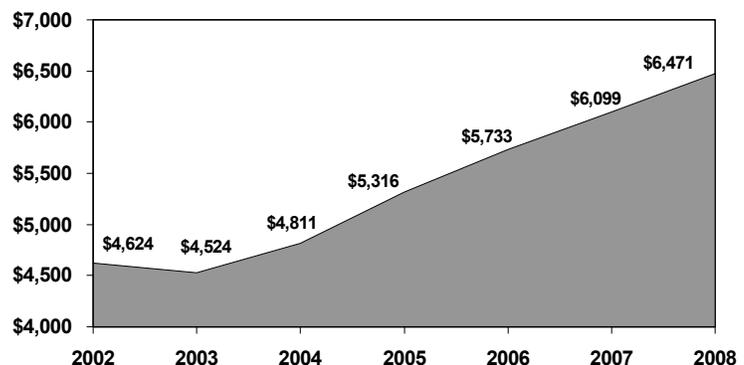
Federal interest expense — the obligatory spending for interest on the nation's accumulated debt — is a "debt tax." Americans must pay taxes to provide the money for interest on the public debt. However, the taxpayers receive absolutely nothing in return for those taxes — no education, no homeland security, just the fulfillment of a legal obligation incurred years ago.

Republican supply-side tax cuts are responsible for an inordinate share of the debt tax. Between 1980 and 1992, the Reagan and first Bush Administrations quadrupled the national debt. Now, after Democrats pulled the budget into surplus and actually paid down some debt in the 1990s, the current Bush Administration is setting new records for additional debt created each year.

Since the President proposed his first budget, projected spending for interest on the national debt for 2002 through 2011 has jumped from \$0.7 trillion to more than \$2.2 trillion. This represents an additional \$1.5 trillion in federal spending for interest on the public debt.

***How big is the debt tax?*** — Chart 4 shows that American families of four now must pay about \$4,500 per year, on average, to service the nation's gross debt. The gross debt includes publicly held debt plus debt held by the government's trust funds, such as the Social Security Trust Fund. Under the Administration's policies, that debt tax will increase to about \$6,500 by 2008. (Counting only the debt held by the public, the debt tax would be about \$2,200 this year, rising to about \$3,350 in 2008.)

**The Debt Tax**  
Federal Gross Interest Per Family Of Four



The Republicans claim that their policies will increase economic growth, and thereby alleviate the debt tax. But that is what they said about their tax cut two years ago. They projected budget surpluses forever, even after their tax cuts. Now, the Administration again tries to assure us that its budget projections are cautious and conservative.

Ironically, the Treasury Department reported right after the budget's release that it will breach the statutory debt limit by the end of February 2003 — the second breach of the debt limit within 12 months. Just two years ago, the Administration projected that it would not have had to increase the debt limit before 2008. There could not be a more vivid indication of the budget's lack of fiscal responsibility than this omen of the future. Excessive tax cuts have largely been responsible for putting the nation in this predicament, but the Administration can recommend only more of the same.

## Tax Cuts at Any Cost

The Bush Administration has a \$4.4 trillion tax agenda. This includes (1) the \$1.3 trillion tax cut of 2001, (2) the first economic stimulus package of March 2002, (3) the \$1.5 trillion in tax proposals put forth in this year's budget, (4) the unacknowledged costs of renewing popular expiring tax breaks, (5) the unacknowledged cost of protecting middle-class families with children from the alternative minimum tax (AMT), and (6) the increased federal spending for interest on the public debt that this tax agenda causes.

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### The Bush Administration's \$4.4 Trillion Tax Agenda

	<u>2001 – 2013</u>
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Two years ago, the Administration argued that projected surpluses were so huge and so certain that only back-loaded, multi-year tax cuts would avoid the dreaded possibility of paying off too much public debt. One year ago, the Administration argued that, despite the re-emergence of budget deficits and growing debt, only back-loaded, multi-year tax cuts could get the economy moving. Now, facing huge, chronic deficits, the Administration proposes even larger back-loaded, multi-year tax cuts, claiming that the economic boost they create will return the budget to balance eventually.

So far, however, the economic consequences of the tax cuts already enacted seem poor at best. For instance, these policies failed to prevent the loss of 2.4 million private-sector jobs since the President was inaugurated. But rather than admit that the Republican tax-cut agenda has failed, the President's new budget cuts taxes by an additional \$1.5 trillion over the next ten years (once one includes the budgetary costs of refundable items). With the interest spending on higher public debt that this causes, the impact on the budget in 2004 through 2013 is more than \$1.9 trillion.

## **Republicans Are Counting on Tax Cuts to Create Exceptional Economic Growth**

OMB Director Daniels and Treasury Secretary Snow testified before the Budget Committee that the President believes his tax breaks will spur the economy to grow faster than the already robust pace assumed in the budget. For instance, when questioned whether the budget would ever return to surplus, Secretary Snow answered that the Administration believed that the economic assumptions underlying the budget were a “worst-case” projection. He promised that the economic benefits of the President’s proposals would cause economic performance to surpass that in the budget, leading eventually to fiscal balance. As an example, the President’s Council of Economic Advisors (CEA) estimates that his proposals will lift growth by 0.9 percentage point in 2003 and 0.8 percentage point in 2004.

The Administration already believes that real GDP will grow at a 3.4 percent annual rate over the next four quarters and even faster in the following four quarters. This seems optimistic given the economy’s stagnation at the moment. The CEA analysis suggests that the Administration actually expects growth to average a 4.3 percent annual rate over the next two years, well ahead of the prediction in the budget. This pace would match the robust performance of the last two years of the 1990s — if it comes to pass — and seems unlikely.

## **Budget’s Lack of Short-Term Stimulus Undercuts Prospects for Growth Rebound Anytime Soon**

Since January, when the President responded to House Democrats’ stimulus proposal with his so-called “economic growth” package, the Administration has circulated various estimates of its plan’s 2003 impact. Now, the budget shows the growth package reducing 2003 revenues by only \$30.2 billion. The budget’s complete set of tax proposals reduce 2003 revenues by \$30.8 billion.

This amounts to a trivial short-term stimulus, equal to less than 0.3 percent of GDP. The 2003 impact constitutes less than 5 percent of the growth package’s long-term impact on the budget and only 2 percent of the long-term impact of all of the President’s new tax proposals. Clearly, the Administration believes that the budget will substantially boost the economy because its back-loaded, long-term tax cuts will have powerful effects on expectations. In turn, changed expectations about events far in the future are supposed to prompt significant behavioral changes in 2003, even without actually putting much money into peoples’ hands right now.

By contrast, the economic stimulus package advanced by House Democrats has a \$136 billion impact this year, equal to 1.3 percent of GDP. Democrats’ stimulus plan relies on traditional, off-the-shelf anti-recession remedies — expanded help for those who have lost their jobs, immediate tax rebates, bonus depreciation for business investment this year — that put money in the pockets of hard-pressed families who will boost their spending now and businesses that will boost investment now.

The President's tax proposals and House Democrats' stimulus plan differ greatly in their effects on the long-term deficit. The Administration advocates tax breaks whose budgetary costs grow substantially over time, with an impact during the second five years that is twice the impact in the first five years. After the next ten years, the costs swell even more. House Democrats' stimulus plan instead has a smaller impact on the ten-year deficit than in 2003 because some costs are re-couped in later years.

The contrasting long-term effects of the two plans illustrates the gamble inherent in the President's proposals. As noted above, the Administration is counting on beneficial near-term effects from expected future tax cuts to outweigh the harmful effects of expected future deficits. House Democrats' proposal stimulates the economy now without significantly adding to the long-term deficits that now saddle the economy.

### **The Budget Understates the True Size of the President's Tax-Cut Agenda**

The Administration's change of heart about budget projections — forsaking the usual ten-year estimates that facilitated passage of the 2001 tax cut for five-year estimates now that the budget outlook has deteriorated — cloaks the long-term consequences of its tax agenda. A good example is the President's proposal to convert essentially all tax-preferred savings vehicles to accounts for which withdrawals would be tax-free.

In the short run, this proposal raises money as people pay additional taxes now to convert existing savings accounts into new ones. However, these accounts would drain revenues after 2006, and that drain on the budget will grow rapidly after 2008 — precisely those years that the budget does not show. Tax-free withdrawals from such accounts would grow exponentially beyond the next ten years, as earnings on the accounts compounded, draining revenues ever faster.

The Administration also understates the true cost of its complete tax agenda by omitting tax cuts it favors from the budget and simply pretending that their costs do not exist. The most striking instance of this is the budget's refusal to acknowledge that the alternative minimum tax (AMT) will increasingly hit middle-class families with children. Last year's budget included an analysis that predicted that 39 million tax filers would be subject to the AMT by 2012, assuming enactment of the President's tax proposals. This would amount to more than a third of all taxpayers paying income tax, with an impact especially severe for families with children.

Clearly, the President does not want to see middle-class families with children having to calculate their taxes twice, only to find that the AMT will deny them tax cuts he promised. The disappointment of so many taxpayers discovering that they must pay more than the regular income tax would be politically intolerable, and inevitably it will not happen. Yet, the cost of preventing it is almost \$700 billion over ten years — costs that do not appear in the President's budget.

Similarly, the budget omits the cost of extending some of the expiring elements of the 2001 tax package — those that expire before 2010 — even though the President has declared that he want

all of the 2001 tax cut made permanent. Furthermore, the budget omits the cost of renewing several popular expiring tax preferences, like the new markets tax credit, that have routinely been renewed in the past. Finally, the budget shows the cost of only temporarily extending other popular expiring tax provisions, like the welfare-to-work and work opportunity tax credits.

## **The Administration Moves Toward Taxing Only Wages**

The Bush budget continues its efforts to provide large tax cuts for those who need the help the least. However, its tax-cutting formula in this budget represents a fundamental reversal of accepted American tax policy for generations.

In the 2001 tax cuts, the Administration moved to repeal the estate tax, and in this budget, it seeks to make that repeal permanent. Now, further, the Administration wants to repeal individual income taxes on dividends, and also to expand vastly the existing vehicles for tax-free saving. By the time this is done, coupled with existing tax preferences like the favored treatment for capital gains, much of the income from capital will be fully exempt from tax. All that will be left consistently in the income tax base will be wages. Those who are already wealthy will see their tax burdens vastly reduced, and workers will be left to pay the vast proportion of the government's bills — including the interest on the debt that was run up to finance the unfair tax cuts in the first place.

With the Administration's proposals, persons with large amounts of wealth will transfer their conservative investments into the two proposed tax-free savings accounts (Retirement Savings Accounts, or RSAs, for retirement funds; and Lifetime Savings Accounts, or LSAs, for other savings). They can hold their risky investments in regular taxable accounts, because dividends would be tax free in any event, and capital gains are already taxed at preferential low rates. And because all wealth can be passed on to heirs tax free once the estate tax is repealed, there will be virtually no income from capital that will be subject to tax.

The Bush budget claims that its savings account policy will be of special benefit to people with moderate incomes; but in fact, the major beneficiaries will be those who already have considerable wealth. Over a period of years, wealthy persons can move considerable sums (\$7,500 per person per year, indexed for inflation, of earned income) into an RSA, and equal sums into an LSA — \$7,500 per year for a single person, \$15,000 per year for a couple. Current law already permits individuals to contribute up to \$12,000 annually into a 401(k) retirement plan. With no taxes on other dividend income, and reduced taxes on capital gains, the tax savings for people who are already wealthy will be enormous. Meanwhile, a typical working family starting without wealth could not save anywhere near such sums.

Beyond the lack of progressivity of this course, the revenue cost eventually will be enormous. However, the proposal actually is made to appear as a revenue raiser in the near term, through an inducement in the law for holders of current IRAs to pay tax on those account balances and shift the money into new RSAs and LSAs. However, as suggested above, those who already have considerable taxable wealth will shift those funds into the new accounts first, and thus not pay additional tax.

## **Republicans Reverse Position on Targeted Tax Preferences**

As a candidate, President Bush echoed years of Republican rhetoric decrying “targeted tax cuts” as misguided attempts to have government, rather than market forces, pick winners and losers. Once again this year, however, the budget proposes more than two dozen separate changes of the tax code intended to induce particular behavioral outcomes on taxpayers’ part. These targeted tax breaks cover everything from charitable giving to telecommuting.

## **Administration’s Tax Proposals Appear Still to Be Changing, Causing Estimated Costs to Change As Well**

In the two weeks between the time the President’s budget was sent to be printed and when it was released, the Administration changed the substance of some of its tax proposals. Most importantly the President’s specific proposals for his plan to boost the economy and his proposal to create new tax-preferred savings vehicles were modified. The Treasury Department, which bears the responsibility for estimating the budgetary impact of tax proposals, then released estimates of these proposals’ budgetary costs that differ from those in the budget documents.

The table below delineating the costs of the budget’s tax proposals uses the more recent Treasury estimates, which are based on the Administration’s current thinking about what it really advocates. Some of these numbers differ from the figures that appear in the President’s budget, but they are presented here as the most recent and most accurate representation of his proposals. At the end of the table, the differences between Treasury estimates of the total cost of those tax proposals and the figures that appear in the budget documents are presented.

## Direct Budget Impacts of the President's Tax Proposals

Millions of Dollars

	<u>2003</u>	<u>2004</u>	<u>2004-08</u>	<u>2004-2013</u>
<b>Economic Growth Package</b>				
Accelerate 10-percent individual income tax rate bracket expansion	-978	-7,782	-30,781	-47,194
Accelerate reduction in individual income tax rates	-5,808	-35,693	-58,102	-58,102
Accelerate "marriage penalty" relief	-2,776	-27,134	-54,786	-55,210
Accelerate increase in child tax credit 1/	-13,827	-6,134	-59,829	-78,545
Eliminate the double taxation of corporate earnings	-2,665	-24,224	-152,666	-385,429
Increase expensing for small business	-1,023	-1,652	-8,372	-14,583
Provide some minimum tax relief to individuals	-3,141	-8,534	-25,818	-25,818
<b>Total economic growth package</b>	<b>-30,218</b>	<b>-111,153</b>	<b>-390,354</b>	<b>-664,881</b>
<b>Tax Incentives</b>				
<b>Incentives for charitable giving</b>				
Provide charitable contribution deduction for nonitemizers	-199	-1,358	-5,944	-12,571
Permit tax-free withdrawals from IRAs for charitable contributions	-66	-437	-1,944	-4,076
Expand & increase enhanced charitable deduction for contributions of food inventory	-19	-54	-330	-872
Modify excise tax based on investment income of private foundations	-15	-159	-632	-1,399
Modify tax on unrelated business taxable income of charitable remainder trusts	-1	-3	-19	-51
Modify basis adjustment to stock of S corporations contributing appreciated property	0	-12	-72	-216
Repeal \$150 million limitation on qualified 501(c)(3) bonds	-2	-6	-43	-82
Repeal restrictions on the use of qualified 501(c)(3) bonds for residential rental property	0	-2	-60	-276
<b>Subtotal, charitable giving</b>	<b>-302</b>	<b>-2,031</b>	<b>-9,044</b>	<b>-19,543</b>
<b>Education</b>				
Provide refundable tax credit for certain costs of attending a different school for pupils assigned to failing public schools 1/	0	-226	-3,320	-3,818
Extend, increase & expand above-the-line deduction for qualified out-of-pocket classroom expenses	0	-23	-1,001	-2,352
<b>Subtotal, education</b>	<b>0</b>	<b>-249</b>	<b>-4,321</b>	<b>-6,170</b>
<b>Health care</b>				
Provide refundable tax credit for purchase of health insurance 1/	0	-324	-34,000	-89,158
Provide above-the-line deduction for long-term care insurance premiums	0	-112	-6,641	-28,255
Allow up to \$500 in unused benefits in a health flexible spending arrangement to be carried forward to the next year	0	-367	-3,342	-8,385
Provide additional choice with regard to unused benefits in a health flexible spending arrangement	0	-19	-188	-595
Permanently extend & reform Archer MSAs	0	-26	-1,777	-5,134
Provide additional personal exemption to home caregivers of family members	0	-70	-1,811	-3,892
Allow the orphan drug tax credit for certain pre-designation expenses	0	0	-3	-8
<b>Subtotal, health care</b>	<b>0</b>	<b>-918</b>	<b>-47,762</b>	<b>-135,427</b>
<b>Telecommuting</b>				
Exclude from income the value of employer-provided computers, software & peripherals	0	-35	-249	-554
<b>Housing</b>				
Provide tax credit for developers of affordable single-family housing	0	-7	-2,466	-16,133
<b>Saving</b>				
Establish Individual Development Accounts (IDAs)	0	0	-1,010	-1,347
Expand tax-free savings	1,390	10,572	14,820	2,002
Consolidate employer-based savings accounts	0	-171	-1,257	-3,000
<b>Subtotal, saving</b>	<b>1,390</b>	<b>10,401</b>	<b>12,553</b>	<b>-2,345</b>
<b>Environment</b>				
Permanently extend expensing of brownfields remediation costs	0	-185	-1,240	-2,356
Exclude 50% of gains from sale of property for conservation purposes	0	-19	-185	-447
<b>Subtotal, environment</b>	<b>0</b>	<b>-204</b>	<b>-1,425</b>	<b>-2,803</b>

## Direct Budget Impacts of the President's Tax Proposals

Millions of Dollars

<b>Energy</b>				
Extend & modify tax credit for producing electricity from certain sources	-124	-264	-1,010	-1,492
Provide tax credit for residential solar energy systems	-4	-7	-71	-71
Modify treatment of nuclear decommissioning funds	-14	-251	-1,035	-2,260
Provide tax credit for purchase of certain hybrid & fuel cell vehicles	-44	-154	-2,418	-3,202
Provide tax credit for energy produced from landfill gas	-5	-28	-392	-707
Provide tax credit for combined heat & power property	-18	-99	-320	-277
Provide excise tax exemption (credit) for ethanol	0	0	0	0
<b>Subtotal, energy</b>	<b>-209</b>	<b>-803</b>	<b>-5,246</b>	<b>-8,009</b>
<b>Trade</b>				
Implement free trade agreements with Chile & Singapore	0	-25	-316	-913
<b>Tax Administration</b>				
Authorize partial-liability installment agreements	0	78	304	624
Permit private collection agencies to support IRS collection efforts	0	46	476	1,008
Combat abusive tax avoidance transactions	12	45	428	1,007
Limit related party interest deductions	0	11	876	3,434
<b>Subtotal, tax administration</b>	<b>12</b>	<b>180</b>	<b>2,084</b>	<b>6,073</b>
<b>Unemployment Insurance</b>				
Reform unemployment insurance administrative financing	0	0	-7,896	-13,412
<b>Other Proposals</b>				
Deposit full amount of gasohol excise tax in Highway Trust Fund	0	0	1,724	4,912
Increase Indian gaming activity fees	0	0	16	41
<b>Subtotal, other proposals</b>	<b>0</b>	<b>0</b>	<b>1,740</b>	<b>4,953</b>
<b>Simplify the Tax Laws</b>				
Establish uniform definition of a qualifying child	0	-26	-120	-194
Simplify adoption tax provisions	-4	-36	-194	-429
<b>Subtotal, simplify the tax laws</b>	<b>-4</b>	<b>-62</b>	<b>-314</b>	<b>-623</b>
<b>Expiring Provisions</b>				
<b>Temporarily extend expiring provisions</b>				
Combined work opportunity/welfare-to-work tax credit	0	-54	-800	-873
Minimum tax relief for individuals	0	-260	-9,787	-9,787
DC tax incentives	0	-53	-232	-357
Authority to issue Qualified Zone Academy Bonds	0	-3	-87	-257
Deduction for corporate donations of computer technology	0	-74	-253	-253
Net operating loss offset of 100% alternative minimum taxable income	-202	-1,070	-1,516	-1,031
IRS user fees	0	68	155	155
Abandoned mine reclamation fees	0	0	1,265	2,978
<b>Permanently extend expiring provisions</b>				
<u>Provisions expiring in 2010:</u>				
Marginal individual income tax rate reductions	0	0	0	-286,950
Child tax credit 1/	0	0	0	-67,674
Marriage penalty relief 1/	0	0	0	-24,398
Education incentives	-2	-11	-132	-4,685
Repeal estate & generation-skipping transfer taxes, modify gift taxes	46	-292	-5,697	-125,991
Modifications of IRAs & pension plans	0	0	0	-11,236
Other incentives for families & children	0	0	0	-2,033
<u>Other provisions:</u>				
Research & Experimentation (R&E) tax credit	0	-1,005	-22,890	-67,922
Suspend disallowance of certain deductions of mutual life insurance companies	0	-123	-385	-472
<b>Subtotal, expiring provisions</b>	<b>-158</b>	<b>-2,877</b>	<b>-40,359</b>	<b>-600,786</b>
<b>Total tax proposals, Treasury estimates</b>	<b>-29,489</b>	<b>-107,783</b>	<b>-493,375</b>	<b>-1,460,573</b>
Outlay effects of tax legislation	300	1,287	52,408	140,998
Estimating differences between OMB and Treasury	-1,598	-2,628	-281	12,575
<b>Total tax proposals as shown in Bush budget</b>	<b>-30,787</b>	<b>-109,124</b>	<b>-441,248</b>	<b>-1,307,000</b>

1/ Affects both receipts and outlays

## **Rosy Economic Assumptions**

Four times before — in the fiscal year 2002 *Budget*, the fiscal year 2002 *Mid-Session Review*, the fiscal year 2003 *Budget*, and the fiscal year 2003 *Mid-Session Review* — the Administration assured us that its policies would produce faster economic growth, and that its budget estimates were cautious. Instead, the President's budgets are now spending the entire Social Security and Medicare Trust Fund surpluses — and a good bit more — for the indefinite future, despite repeated Republican promises to save those surpluses.

### **This Year's Promises Are the Same as Previous Promises, Which Were Not Kept**

Yet again, the Bush budget repeats the claims that the economy will perform better than predicted and that its budget forecasts are cautious. Even though the budget is now expected to remain in deficit for several years even without any policy changes, the President proposes adding \$2 trillion to projected deficits and debt. The Administration again is trying to use the same assurances that its policies will increase growth and that its estimates are cautious.

The President's excessive additional tax cuts, which provide disproportionate benefits to our society's most fortunate, are financed entirely with borrowed money. Every dollar that goes to a tax cut will be an additional dollar of debt that taxes on middle-class families will pay, if trickle-down economics does not work. If supply-side theories again fail to work — just as they failed in 1981 and 2001 — that debt will create a perpetual tax burden for the middle-class.

Accordingly, it is more important than ever to understand the economic assumptions that underlie the Administration's supply-side gamble. Unfortunately, the budget's economic assumptions already are sufficiently rosy that it is highly unlikely the economy's actual performance will surpass them.

### **Administration's Projection Are Rosier Than CBO's and Private Forecasters**

In this budget, the economic assumptions are optimistic from top to bottom. The following table shows that, for those indicators most crucial to the budget estimates, the Administration's assumptions are at least as favorable as those of the Congressional Budget Office (CBO) and the Blue Chip consensus of private-sector economists.

<b>Comparison of Economic Assumptions</b>						
<b>Calendar Years</b>						
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Real GDP Growth 1/						
CBO January	2.5	3.6	3.4	3.3	3.2	3.1
Blue Chip Consensus January 2/	2.8	3.6	3.3	3.1	3.1	3.1
2004 Budget	2.9	3.6	3.5	3.3	3.2	3.1
Consumer Price Index 1/						
CBO January	2.3	2.2	2.4	2.5	2.5	2.5
Blue Chip Consensus January 2/	2.2	2.2	2.5	2.6	2.5	2.5
2004 Budget	2.2	2.1	2.1	2.2	2.2	2.3
Unemployment Rate 3/						
CBO January	5.9	5.7	5.4	5.3	5.2	5.2
Blue Chip Consensus January 2/	5.9	5.5	5.1	5.1	5.1	5.1
2004 Budget	5.7	5.5	5.2	5.1	5.1	5.1
91-Day Treasury Bill Interest Rate 3/						
CBO January	1.4	3.5	4.8	4.9	4.9	4.9
Blue Chip Consensus January 2/	1.6	2.9	4.2	4.4	4.6	4.4
2004 Budget	1.6	3.3	4.0	4.2	4.2	4.3
10-Year Treasury Note Interest Rate 3/						
CBO January	4.4	5.2	5.7	5.8	5.8	5.8
Blue Chip Consensus January 2/	4.4	5.2	5.6	5.8	5.7	5.7
2004 Budget	4.2	5.0	5.3	5.4	5.5	5.6
1/ Year over year percent change.						
2/ Blue Chip January 2003 consensus for 2003-2004; October 2002 long-run for 2005-2008.						
3/ Annual averages, percent.						
Source: <i>Fiscal Year 2004 Budget of the U.S. Government</i> , p. 329, table S-12.						

Higher projections of real economic growth produce more favorable budget outcomes, while lower projections for consumer price inflation, unemployment, and interest rates improve budget forecasts. For every one of these indicators, for every single year, the Administration’s projection is more favorable than, or equal to, the CBO assumption or the Blue Chip consensus.

## Why Are the Administration's Deficits in 2003 and 2004 Worse Than CBO's?

In 2003 and 2004, the Administration's baseline deficit projection is worse than CBO's. How can that be true, when OMB's economic assumptions are more favorable? The answer lies in the less widely understood technical assumptions, discussed below.

On page 30 of the *Analytical Perspectives* volume of the budget package, the Administration shows its so-called technical re-estimates to the President's budget totals. These technical factors are largely judgmental changes of projected deficits that reflect the Administration's view that the economic models by themselves will give misleading predictions. The most important of these judgmental changes concern the amount of revenues produced by any given level of GDP. The Administration has made substantial downward technical adjustments to projected revenue — but only in 2003 and 2004.

Technical Re-Estimates of Revenues						
Billions of Dollars						
	2003	2004	2005	2006	2007	2008
Receipts	-134	-77	-42	-11	-*	1
* Less than \$500 million						
Source: <i>Fiscal Year 2004, Analytical Perspectives, Budget of the U.S. Government</i> , p. 30, table 2-4.						

The Administration's \$134 billion downward technical adjustment for 2003 is consistent with the very disappointing inflow of revenues thus far in the fiscal year. However, the Administration is betting that this weakness in revenues relative to GDP will be short-lived. By 2005, it is quite small, and it is gone entirely by 2007. Without these large downward technical revisions in 2003 and 2004 and their subsequent fading thereafter, the projected deficit would appear to deteriorate over the next few years, rather than improve as the Administration projects.

Because of the large technical revision assumed this year, budget watchers should not be surprised if the 2003 results turn out to be even a bit better than the Administration's projections. But the Administration assumes that the current weakness in revenues is purely temporary and that revenues snap back in just a few years. We will not know whether the Administration's bet is correct until well into 2005 — by which time we will have squandered some of the precious time remaining before the retirement of the baby boom begins in 2008.

**THE RECORD:  
THE BUSH BUDGETS CONFIDENTLY BET THE FUTURE**

Five consecutive Bush budget documents have asserted that (1) their policies will increase economic growth; and (2) their budget estimates are cautious and conservative. Following is a brief record of the administration's claims:

February 2001, *A Blueprint for New Beginnings: A Responsible Budget for America's Priorities*:

The marginal rate cuts contained in the President's plan will be a powerful force in helping to boost long-term growth . . . (p. 35) The tax plan should also help to shore up near-term growth, acting as an insurance policy against further weakening of the economy. (p. 33)

There has been considerable public discussion of the potential downside risks to the surplus projections. However, the greatest "risk" to accurate forecasting in recent years has been on the upside as a result of stronger than expected revenue growth and weaker than expected outlay growth. Revenues have contributed most to surplus underestimates . . . (p. 14)

August 2001, *Fiscal Year 2002 Mid-Session Review*:

Despite a nearly stagnant economy, the government's finances are remarkably sound. The budget's enormous surpluses have allowed us to deliver significant tax relief to working Americans, providing badly needed fiscal stimulus to counteract the year-long slowdown in the economy. Even while weathering the slowdown and taking action on tax relief, we continue to take in huge surplus revenues, and to use the extra receipts to steadily reduce the nation's outstanding debt . . . The 2002 surplus projection is \$173 billion, compared to April's \$231 billion estimate. Over the 10 years from 2002 to 2011, the surplus totals \$3,113 billion, down from the \$3,433 billion estimated in April. (p. 1)

. . . the reductions in marginal tax rates enacted this year are likely to have important positive effects in coming years on the supply of labor and saving, which will benefit long-term growth. In the interest of cautious budgeting, however, the Administration has not built these long-term supply-side effects into its long-term economic assumptions, choosing instead to remain close to consensus forecasts. (p. 17)

February 2002, *Budget of the U.S. Government*:

This budget advances a bipartisan economic recovery plan that provides much more than greater unemployment benefits: it is a plan to speed the return of strong economic growth, to generate jobs, and to give unemployed Americans the dignity and security of a paycheck instead of an unemployment check. (p. 3)

There is widespread recognition of the difficulties involved in making multi-year projections. For instance, the Administration and CBO only attempt to forecast the economic cycle for the 18–24 month period following the budget submission. Thereafter, both simply assume that the economy returns to its long-run sustainable rate of growth. (p. 38)

July 2002, *Mid-Session Review*:

“For once, Congress managed to implement a contra-cyclical fiscal policy that should boost economic growth exactly when the economy needs it,” said Merrill Lynch’s Bruce Steinberg around the time the tax relief bill was passed. Martin Feldstein, president of the authoritative National Bureau of Economic Research, called the subsequent economic turnaround “neither an illusion nor an accident,” adding that “[a] primary reason for the strength of consumer spending was the enactment of the tax cut in early 2001.” (p. 3)

The \$1.7 trillion change in the projected cumulative surplus is due to economically driven lower receipts. This change reflects the recession’s immediate impact and a more cautious outlook about long-term revenues. (p. 7)

Current estimates show a return to surplus in 2005. The strong fundamentals of the U.S. economy—low inflation, strong productivity growth, and a healthy labor market— should combine to deliver growing surpluses and the opportunity to resume paying down the national debt in the years beyond. (p. 7)

Were it not for the recession, receipts would still be historically high despite the tax cut, and will increase again as the economic recovery proceeds. (p. 3)

And now, February 2003, *Budget of the U.S. Government*:

The budget for 2004 meets the challenges posed by three national priorities: winning the war against terrorism, securing the homeland, and generating long-term economic growth . . . Government cannot manage or control the economy. But government can remove the barriers blocking stronger economic growth. My plan will give Americans more tools to achieve that growth. (p. 1)

And under the heading, “A Cautious Forecast:”

. . . In view of the unprecedented revenue plunge of 2001–2002, the Administration has opted for a cautious revenue projection. After selecting conservative economic assumptions, the Administration further reduced its receipts forecast for 2003 and 2004 below what the economic and tax models indicate. The Administration has reduced its forecast for 2003 income tax receipts by \$25 billion below the models’ predictions, and for 2004 the forecast for income tax receipts was reduced by \$15 billion. The net effect is that projected receipts remain flat this year when fiscal history suggests a sharp increase. Although this forecast should protect against a negative surprise on the receipts side, one cannot know what sudden additional spending the war on terrorism might require. The budget’s economic assumptions likewise are conservative, but uncertainties and the risks of further economic slowing cannot be ignored, as the President concluded in advancing his latest growth proposals. (p. 28)

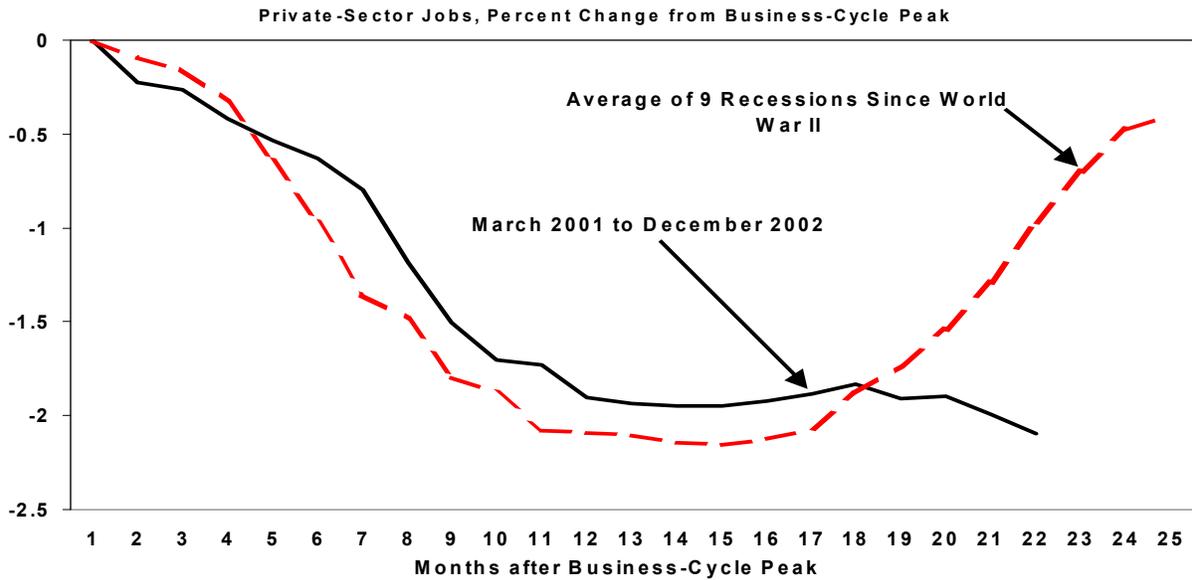
### **Current Economic Weakness Casts Doubt on Administration’s Growth Predictions**

In order for the Administration’s economic forecast to come true, average real GDP growth will have to be 3.4 percent over the next four quarters and even faster in the four quarters thereafter. If the economy stumbles in one quarter, the lack of growth will have to be made up in some other quarter in order to hit the 3.4 percent average assumed by the President’s budget.

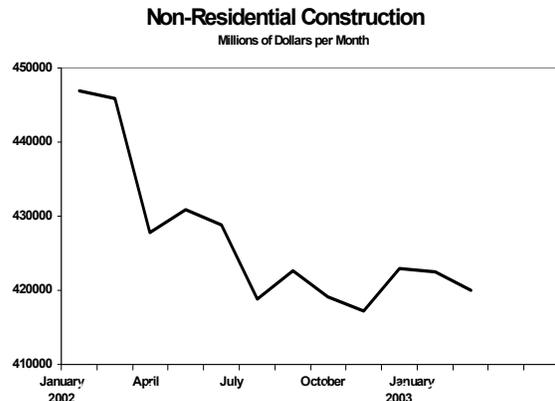
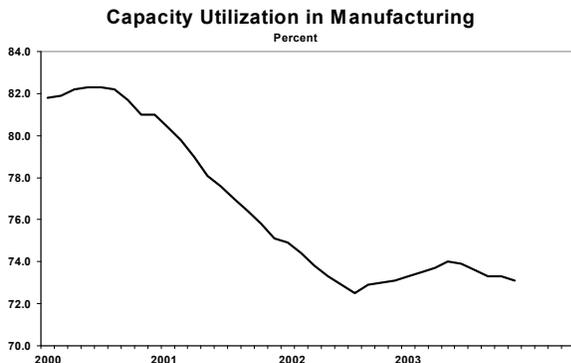
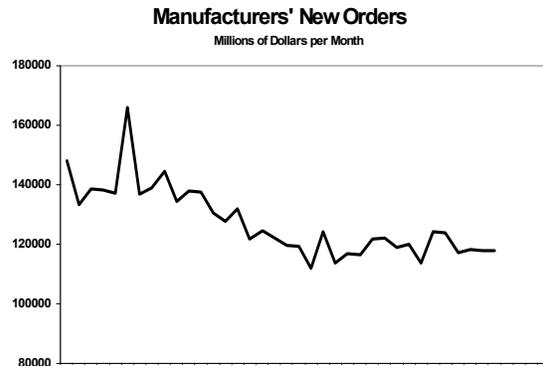
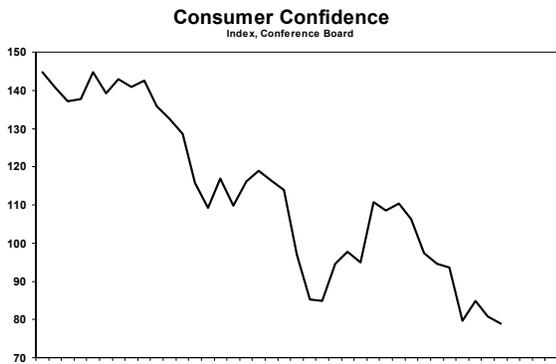
Economic indicators suggest that the current quarter is off to a bad start, and weak performance now may require faster growth later for the Administration’s predictions to come true.

The labor market continues to be very weak. As the first week in February, job growth appears flat at best. The chart below shows that employment as of December had failed to recover from its recession trough and appeared to be headed down again. Weekly data for new claims for unemployment insurance have continued to fluctuate around 400,000 claims per week, as they have since the beginning of 2001. Jobless claims in January averaged 385,000, suggesting that job opportunities remain scarce.

# The Jobs Recession



Current indicators of consumer and business demand also show weakness in the most recent data. The Conference Board's Consumer Confidence Index dropped in January to its lowest level in more than eight years. Manufacturers' new orders have been essentially flat since early 2001. Capacity utilization remains at recession levels, suggesting that firms will have little incentive to invest in new plant and equipment until existing capacity is unavailable to meet demand. While housing activity remains at a high level due to currently low interest rates, non-residential construction has fallen over the last year.



## **Budget Gimmicks: What You See is Not What You Get**

- ***The President's Budget Uses Gimmicks and Omissions to Camouflage the Deterioration of the Budget Outlook*** — The budget hides its long-term fiscal effects, omits the cost of huge and inevitable events, understates costs of its tax cuts, and overstates the resources devoted to other priorities.
- ***The Administration Conceals the Re-emergence of Long-term Budget Deficits by Showing Only Five Years of Numbers*** — Contrary to the practice OMB followed before last year, the budget shows numbers only through 2008. In the President's first budget, the Administration embraced ten year projections because the huge surplus projected for the next decade supposedly justified imprudent, back-loaded tax cuts. Now, with the return of large, chronic deficits, the Administration claims that ten-year forecasts cannot be trusted.
- ***The President's Putative Budget Leaves out the Cost of Huge Items, like the Conflict with Iraq and Protection of the Middle Class from the Alternative Minimum Tax*** — The President's submission today is not really a budget because it omits important items. For instance, the budget omits the cost of war with Iraq and that country's subsequent occupation. Similarly, the President's budget last year took notice that the alternative minimum tax (AMT), unless changed, will affect 39 million tax filers by 2010, up from less than 2 million currently. Eventually, the AMT will burden more than half of all families with children. Even though the AMT will take away many of the tax cuts the President is promising and will oblige millions of middle-class families to figure their taxes twice and pay more, the President's budget shows no cost for comprehensive AMT reform.
- ***The Administration Insists That Budget Discipline Should Not Apply to Additional Tax Cuts*** — On page 29 of the budget, the President calls for renewing the expired pay-as-you-go rule for mandatory spending only. Before it expired, this mechanism for budget discipline required that tax cuts, as well as entitlement spending, had to be budget-neutral unless Congress specifically chose to override this rule. Now, the Administration wishes to claim credit for budget discipline while ignoring the effects of its extravagant tax cuts.
- ***The Administration's New Saving Account Proposal Hides its Long-run Cost*** — Because withdrawals from the President's proposed new savings accounts would be tax-free, the revenue loss from this item occurs years in the future — beyond the budget's truncated five-year projection window. In 2003 through 2006, the new accounts actually increase revenue, because people pay taxes when converting existing savings vehicles into the new accounts. However, as people start making withdrawals from these accounts, the revenue loss grows.

## Homeland Security

The homeland security budget spans more than a dozen agencies, the largest of which are the new Department of Homeland Security (57.8 percent of total resources), the Department of Defense (16.2 percent), the Department of Health and Human Services (9.1 percent), and the Department of Justice (5.5 percent). Seventeen of the 19 budget functions contain at least some funding for homeland security activities. The largest amounts for homeland security are contained in Function 050 (National Defense), Function 400 (Transportation), Function 450 (Community and Regional Development), Function 550 (Health), and Function 750 (Administration of Justice). The transfer of many homeland security activities from other agencies to the new Department of Homeland Security has complicated the task of comparing resources provided for particular programs and activities for 2004 and for previous years.

### Overall Funding Levels

- ***Flat Funding for Homeland Security*** — The President’s budget includes a total of \$41.3 billion for homeland security activities for 2004. Of this total, \$6.4 billion is for mandatory and fee-funded programs, and the remaining \$35.0 billion is for net appropriated programs. Out of this appropriated total, the budget includes \$10.1 billion for the Department of Defense and other national defense activities, and \$0.1 billion for the State Department and other international affairs programs. This leaves a remainder of \$24.8 billion for domestic appropriated homeland security programs.

The \$41.3 billion in total resources for homeland security is \$312 million more than the Administration’s estimate of resources provided for 2003. This is a nominal increase of 0.8 percent, and at best keeps pace with the amount needed to maintain purchasing power at the Administration’s estimated 2003 level.

### Homeland Security Funding (Budget Authority in Billions of Dollars)

	<u>OMB 2003 Estimate</u>	<u>2004</u>	<u>Increase</u>	<u>% Increase</u>
<b>Total Resources</b>	<b>\$41.0</b>	<b>\$41.3</b>	<b>\$0.3</b>	<b>0.8</b>
Mandatory Programs	\$2.0	\$2.9	\$0.9	44.4
Fee-Funded Discretionary Programs	\$3.4	\$3.5	\$0.1	2.7
Net Appropriated Programs:	\$35.6	\$35.0	-\$0.7	-1.9
<i>National Defense (Function 050)</i>	<i>\$11.4</i>	<i>\$10.1</i>	<i>-\$1.3</i>	<i>-11.3</i>
<i>International Affairs</i>	<i>\$0.0</i>	<i>\$0.1</i>	<i>\$0.0</i>	<i>29.3</i>
<i>Domestic Discretionary</i>	<i>\$24.2</i>	<i>\$24.8</i>	<i>\$0.6</i>	<i>2.5</i>

*All numbers based on OMB estimates. Numbers may not add exactly due to rounding.*

- **Minimal Increase for Appropriated Domestic Homeland Security Programs** — The \$24.8 billion net appropriations for domestic homeland security is \$0.6 billion more than the Administration’s estimate for 2003. This is a nominal increase of 2.5 percent, but does not provide a significant increase above the amount needed to maintain purchasing power at the 2003 level.
- **Budget for the New Department of Homeland Security** — The federal government’s homeland security activities and budget span many departments and agencies, the most important of which is the new Department of Homeland Security (DHS). As the table below shows, of the total \$41.3 billion budget for 2004, \$23.9 billion is for activities within the DHS; the remaining \$17.5 billion is for other agencies.

**Homeland Security Funding, by Agency**  
(Budget Authority in billions of dollars)

	2004 request	Percentage of request
Department of Homeland Security	23.9	57.8 percent
Other Agencies	17.5	42.2 percent
<b>Total</b>	<b>\$41.3</b>	<b>100 percent</b>

*All numbers based on OMB estimates. Numbers may not add exactly due to rounding.*

As the following table shows, the DHS budget also includes an additional \$12.3 billion to fund activities that are not connected with homeland security, such as Coast Guard search-and-rescue activities. Thus, the total budget for the DHS is \$36.2 billion, but only 66.0 percent of this funding is used for activities related to homeland security.

**Department of Homeland Security Budget**  
(Budget Authority in billions of dollars)

	2004 Budget Request	Percentage of Request
Homeland Security Activities	23.9	66.0 percent
Non-Homeland Security Activities	12.3	34.0 percent
<b>Total</b>	<b>\$36.2</b>	<b>100 percent</b>

*All numbers based on OMB estimates. Numbers may not add exactly due to rounding.*

## Program Highlights

- **Bioterrorism** — For the fight against bioterrorism, the budget includes \$3.6 billion for the Department of Health and Human Services (HHS), \$1.0 billion for DHS, and other, smaller amounts for other agencies. The HHS budget is a \$233 million decrease from the President’s request for 2003. This decrease is due to one-time 2003 costs funding

building security and the transfer of responsibility for anthrax vaccine procurement to DHS. The DHS bioterrorism budget contains \$400 million for the Strategic National Pharmaceutical Stockpile and proposed mandatory spending to purchase biodefense countermeasures, such as smallpox and anthrax vaccines. For 2004, this proposal spends \$575 million (the 2004 budget authority for this proposal is \$890 million). For more information on the bioterrorism budgets at HHS and DHS, see *Function 550 (Health)*.

- ***Transportation Security Agency (TSA)*** — The budget includes \$4.8 billion for the TSA. This amount is \$526 million less than the amount requested for 2003. The Administration states that the 2003 total included one-time start-up and roll-out costs for the agency of \$685 million, which are not needed for 2004. The budget includes: \$4.3 billion for direct aviation security activities; \$85 million for TSA's land security activities; \$55 million for checking the credentials of transportation workers; and \$65 million for research and development.
- ***No Specific Funding for Port Security Grants*** — The budget does not request specific funds for grants to port authorities for security upgrades. These grants were authorized as part of the port and maritime security legislation passed by the Congress and signed into law in November 2002.
- ***Coast Guard*** — The President's budget provides a total of \$6.8 billion for the Coast Guard, now part of the Department of Homeland Security. Of this amount, \$2.5 billion is for homeland security activities, and the remainder for non-homeland security activities. For additional information on the Coast Guard budget, see *Function 400 (Transportation)*.
- ***First Responders*** — The budget includes \$3.5 billion in the DHS budget for first responders — the police, fire, rescue, and emergency personnel expected to initially respond to any terrorist attack. The \$3.5 billion includes at least \$500 million for grants to firefighters and at least \$500 million for state and local law enforcement grants. (Elsewhere in the budget, in the budget for the Department of Justice, law enforcement grant programs are reorganized and their funding reduced.) Last year, the Administration also requested \$3.5 billion for grants for first responders.
- ***Department of Defense (DOD)*** — For 2004, the budget provides \$6.7 billion for DOD homeland security activities. This amount is \$2.1 billion less than the Administration's estimate of the 2003 level. The Administration states that this decrease is the result of one-time force protection investments that were made in 2003 and will not be repeated in 2004. Much of DOD's homeland security funding is for protecting DOD forces and installations. Actual DOD operations against terrorism, such as military operations in Afghanistan, are not considered to be homeland security.

## Appropriated Programs

The President's budget includes \$821.8 billion for all appropriated programs and transportation obligation limitations, a cut of \$7.3 billion below the level needed to maintain programs and services at their 2002 level. As the table below indicates, all of this cut and an additional \$11.4 billion cut occurs in domestic non-homeland security funding, which is \$18.7 billion (4.8 percent) below the amount needed to maintain purchasing power at the 2002 level. Funding for defense is \$399.2 billion, \$7.7 billion above the amount needed to maintain purchasing power. Domestic homeland security appropriations are \$24.8 billion, \$1.6 billion above the amount needed to maintain purchasing power.

<b>Funding for Appropriated Programs</b>				
(Budget Authority and Obligation Limitations in Billions of Dollars)				
	<b>2004 Baseline</b>	<b>2004 Request</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Domestic Programs	388.0	369.3	-18.7	-4.8
National Defense*	391.5	399.2	+7.7	+2.0
Homeland Security**	23.2	24.8	+1.6	+6.9
International Affairs	26.5	28.6	+2.1	+7.9
<b>Total</b>	<b>829.2</b>	<b>821.8</b>	<b>-7.3</b>	<b>-0.9</b>

\*National Defense represents Function 050, which includes the Department of Defense and the nuclear weapons-related activities of the Department of Energy.

\*\*Homeland Security excludes funding counted in National Defense and International Affairs.

Note: The 2004 baseline is CBO's August 2002 estimate of what is needed to maintain programs at their 2002 levels, except for Function 051, which is based on the 2003 enacted levels in CBO's January 2003 baseline.

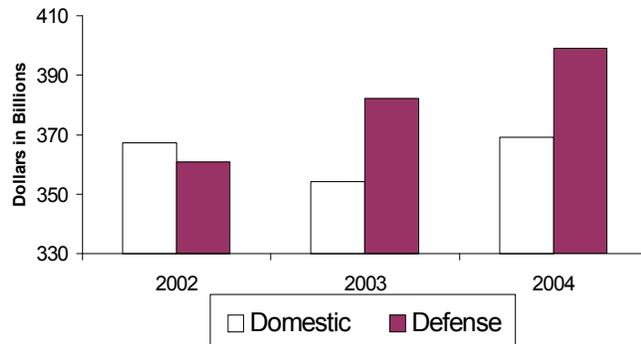
Numbers may not add due to rounding.

As of the printing of this document, Congress has passed 2003 appropriations bills only for Defense and Military Construction. Accordingly, for Defense and Military Construction programs, this analysis compares the President's 2004 request against the amount that the Congressional Budget Office (CBO) estimates would be needed for 2004 to maintain purchasing power for these programs at the 2003 level.

The rest of the appropriated budget currently is operating under a continuing resolution (CR) that freezes programs at their 2002 enacted level. Accordingly, for all programs lacking 2003 enacted levels, this analysis compares the President's 2004 request against the amount needed for 2004 to maintain purchasing power for these programs at the 2002 level. This comparison relies on estimates contained in CBO's August 2002 baseline report.

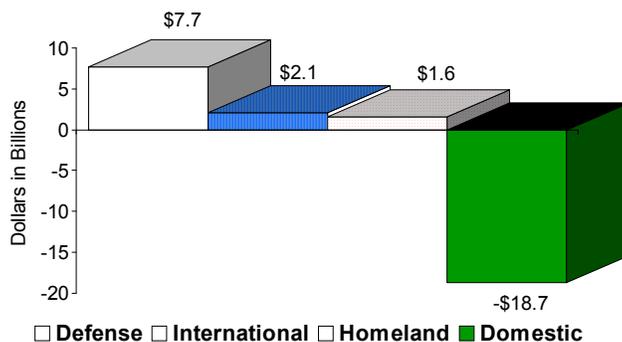
- **Four Percent Increase is Misleading** — The President’s budget does increase overall 2004 appropriations by four percent over the expected 2003 level, giving both defense and domestic a four percent increase. However, these increases are misleading. As the chart to the right shows, while defense funding actually grew by \$21.4 billion (5.9 percent) from 2002 to 2003, the Republicans in Congress and the Administration have agreed to cut domestic non-homeland funding for 2003 by \$13.0 billion (3.5 percent) from the 2002 enacted level. Thus, the President’s budget is providing non-defense appropriations with a four-percent increase from a very low 2003 base.

### Domestic Programs Start From a Low 2003 Level



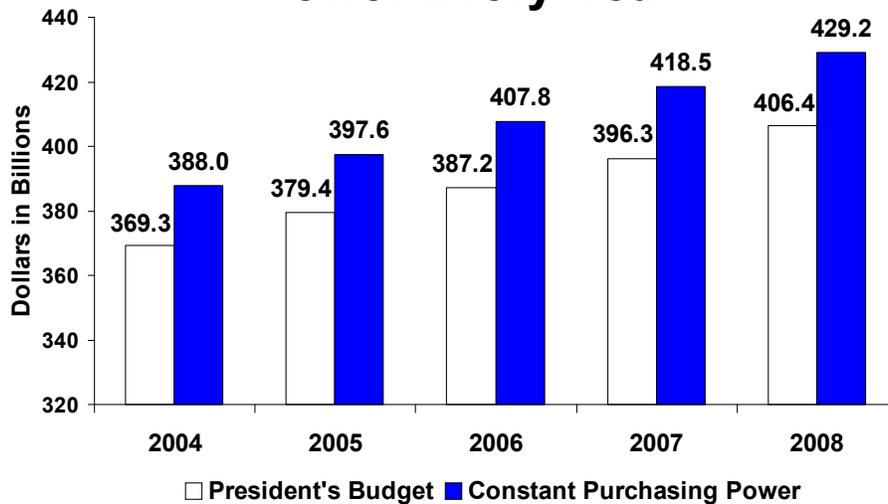
- **Squeeze on Domestic Programs** — This four-percent nominal increase from the expected 2003 level masks real cuts to domestic non-homeland security programs, which are cut by \$18.7 billion (4.8 percent) below the amount needed to maintain purchasing power at the 2002 level. In fact, the budget’s domestic non-homeland funding for 2004 is only \$2.0 billion above the 2002 enacted level. The budget cuts most domestic programs by even more than 4.8 percent because it includes a few increases for selected high-profile programs, such as special education and veterans health care.

### Bush 2004 Discretionary Budget President’s Request vs. Constant Purchasing Power



- **Domestic Funding Stays Below Purchasing Power All Five Years** — As the chart on the next page indicates, the 2004 budget maintains its squeeze on domestic appropriations and obligation limitations for each of the five years that it includes. By 2008, the budget cuts domestic funding by \$22.7 billion (5.3 percent) below the amount needed to maintain purchasing power at the 2002 level. On the other hand, it increases defense funding steadily each year; by 2008, it provides \$45.8 billion (10.5 percent) above the amount needed to maintain purchasing power at the 2003 level. See *Function 050 (National Defense)* for more details.

## President's Domestic Non-Homeland Security Funding Cuts Purchasing Power Every Year



- ***Does Not Reflect Likely 2004 Total*** — The \$821.8 billion total for appropriations and transportation obligation limitations in this 2004 budget does not reflect any defense funding for a potential war with Iraq. The Administration will make a supplemental 2003 or 2004 request if necessary. This will raise total appropriations and increase the deficit accordingly.

## Harmful Cuts

### Cuts to Education, Employment, and Training

- ***Cuts Funding for No Child Left Behind Act*** — The budget provides only \$22.6 billion for programs under the No Child Left Behind Act (NCLB), which is \$9 billion below the amount authorized for 2004 and \$199 million below the amount needed to maintain programs and services at the 2002 level.
- ***Eliminates 47 Education Programs*** — The President's 2004 budget eliminates 47 programs that receive a total of \$1.6 billion under the continuing resolution (CR).
- ***Major Education Program Cuts*** — The budget cuts many programs below the amount required to maintain purchasing power at the 2002 level, including the following:
  - ***21<sup>st</sup> Century Community Learning Centers*** after-school program receives \$600 million, down \$430 million (41.8 percent). This is \$1.2 billion below the level Congress authorized for 2004 in NCLB;
  - ***Teacher Quality Programs*** receive \$3.1 billion, down \$173 million (5.2 percent);
  - ***Education Technology*** receives \$722 million, down \$77 million (9.6 percent);
  - ***Impact Aid*** receives \$1.0 billion, down \$168 million (14.2 percent). This is even \$125 million below the President's 2003 request;
  - ***Vocational Education*** receives \$1.0 billion for 2004, down \$351 million (26.0 percent). This is \$300 million below the President's 2003 request;
  - ***Fund for the Improvement of Education*** receives \$35 million for 2004, down \$361 million (91.2 percent); and
  - ***Perkins Loans*** receive \$68 million, down \$106 million (61.0 percent).
- ***Slashes Direct Aid to Students*** — The budget eliminates four student aid programs that receive a total of \$73 million under the CR, reduces the program that provides child care for student-parents to \$15 million (34.1 percent below the amount needed to maintain purchasing power at the 2002 level), and freezes all other assistance for students at the CR level, including funding for GEAR-UP (\$10 million below the amount needed to maintain purchasing power) and TRIO (\$27 million below the amount needed to maintain purchasing power at the 2002 level).
- ***Cuts Employment and Training*** — As the country struggles out of an economic recession, the budget cuts funding for training and employment programs to \$5.7 billion, a cut of \$713 million (11.0 percent) below the amount needed to maintain purchasing power at the 2002 level. This funding includes \$3.1 billion for a new block grant that combines three programs (adult training, dislocated workers, and the Employment

Service state grants), a cut of \$122 million below the amount needed to maintain purchasing power at the 2002 level. It also eliminates Youth Opportunity Grants and cuts funding for youth activities to \$1.0 billion, which is \$165 million (14.2 percent) below the amount required to maintain the 2002 purchasing power level.

## **Cuts to Health**

- ***Slashes Rural Health Activities*** — The budget provides \$80 million for rural health activities, a \$52 million cut (39.2 percent) from the amount needed to maintain purchasing power at the 2002 level.
- ***Slashes Health Professions Training*** — Health Professions Training programs are funded at \$108 million in 2004, a \$293 million cut (73.1 percent) below the amount needed to maintain purchasing power at the 2002 level.
- ***Eliminates Community Access Program (CAP)*** — The budget eliminates the community access program, which received \$105 million for 2002. CAP funds grants to coordinate health care services to the under-insured and uninsured offered by community providers such as public hospitals, community health centers, and disproportionate share hospitals.
- ***Eliminates State Planning Grants*** — The budget eliminates state planning grants, which received \$15 million in 2002. These grants are used by states to develop designs for providing access to health insurance coverage to all people in a state.
- ***Slashes Telehealth Activities*** — For 2004, the budget cuts telehealth activities 84.3 percent below the amount needed to maintain purchasing power at the 2002 level, providing funding of \$6 million.
- ***Cuts Children's Hospital Graduate Medical Education (GME)*** — The budget funds pediatric GME at \$199 million, \$96 million (32.6 percent) below the amount needed to maintain purchasing power at the 2002 level. These funds are currently used by children's teaching hospitals to offset the higher costs of providing advanced training to pediatricians.
- ***Substance Abuse Prevention Activities*** are funded at \$148 million, a cut of \$57 million (27.8 percent) below the amount needed to maintain purchasing power at the 2002 level.

## **Cuts that Hurt Working Families**

- ***Freezes Funding for Child Care*** — The budget once again freezes funding for the Child Care and Development Fund at the 2002 enacted level of \$4.8 billion, providing \$2.1

billion in appropriations for the Child Care and Development Block Grant, and \$2.7 billion for mandatory child care programs. The block grant funding represents a cut of \$71 million from the amount necessary to maintain purchasing power at the 2002 level. The budget freezes mandatory funding at the 2002 enacted level through 2008, further eroding purchasing power each year. The budget projects the number of children served by these programs will decline from 2.5 million in 2003 to 2.3 million in 2008.

- ***Eliminates Funding for Rehabilitation of Distressed Public Housing*** — The budget does not renew the HOPE VI program, which provides funding for rehabilitation and demolition of housing units identified as severely distressed. This program was funded at \$574 million in 2002; the budget provides no funding for 2004.
- ***Converts Section 8 Tenant-based Housing Assistance to a Block Grant*** — The budget converts Section 8 housing vouchers for low-income renters into a block grant program administered by states called “Housing Assistance for Needy Families,” with 2004 serving as a transition year. The policy of converting tenant-based vouchers to a block grant structure provides less funding for this program in future years than is assumed in projections of current law. For example, the budget includes \$18.6 billion for Section 8 programs in 2008, whereas CBO projects that more than \$20 billion will be needed in that year to maintain purchasing power at the 2002 enacted level and provide full funding to renew all expiring contracts.
- ***Erodes Public Housing Operating Fund*** — The budget provides \$3.6 billion to pay local public housing authorities for operating costs not covered by rental income. This level is \$40 million below the amount needed to maintain purchasing power at 2002 levels. This cut is further exacerbated by a \$250 million shortfall in 2002, caused by a HUD estimating error, that carried over into 2003 and negatively affects the current operating budgets for some public housing authorities. The budget does not include funding to address the 2002 shortfall.
- ***Cuts Funding for Critical Repairs to Public Housing*** — The budget includes \$2.6 billion for the public housing capital fund, which is a cut of \$299 million, or ten percent, from the amount needed to maintain purchasing power at 2002 levels.
- ***Zeroes out Rural Housing and Economic Development*** — The budget eliminates this \$25 million program, which encourages new and innovative approaches to serve the housing and economic development needs of rural populations through grants to local community-based organizations.

## Cuts that Weaken Our Communities

- ***Community Development Block Grant (CDBG) Program Cut*** — Community Development Block Grants provide funds for programs and activities that promote economic development in low- and moderate-income communities. The President's budget provides \$4.7 billion for CDBGs, a \$438 million (9.3 percent) cut below the level needed to maintain purchasing power at the 2002 level, excluding the supplemental disaster relief provided for CDBG programs for that year.
- ***Community Development Financial Institutions (CDFI) Fund Cut*** — The CDFI program provides grants, loans, and other assistance to promote investment in economically distressed areas. The budget provides \$51 million for CDFI, a \$31 million (37.8 percent) cut below the level needed to maintain purchasing power at the 2002 level.
- ***Appalachian Regional Commission Cut*** — The Appalachian Regional Commission aids economic development in the Appalachian region. The budget provides \$33 million for the Appalachian Regional Commission, a \$41 million (55.4 percent) cut below the level needed to maintain purchasing power at the 2002 level.
- ***Rural Community Advancement Cut*** — The Rural Community Advancement (RCA) program provides grants, loans, and loan guarantees to stimulate economic growth and build facilities in rural communities. The budget provides \$478 million for the Rural Community Advancement program, a \$356 million (42.7 percent) cut below the level needed to maintain purchasing power at the 2002 level.
- ***Empowerment Zones Eliminated*** — Empowerment Zones target funds to revitalize economically distressed urban and rural communities and attract private investment in those communities. The budget eliminates urban and rural empowerment zones. To maintain purchasing power at the 2002 level, urban empowerment zones would require \$47 million and rural empowerment zones would require \$16 million.
- ***Brownfields Redevelopment Program Eliminated*** — The Brownfields Redevelopment Program provides competitive economic development grants under the Department of Housing and Urban Development for brownfield projects. The budget eliminates funding for the program, which would require \$26 million to be funded at the 2002 level.
- ***Community Oriented Policing Services (COPS) Cut*** — The Community Oriented Policing Services provides grants and other assistance to help communities hire, train, and retain police officers and improve law enforcement technologies. The budget slashes the COPS program, providing only \$158 million, a \$929 million (85.5 percent) cut below the level needed to maintain purchasing power at the 2002 level.

- ***State and Local Criminal Justice and Juvenile Justice Eliminations and Cut*** — State and local criminal justice and juvenile justice assistance programs center on combating and deterring crime. The budget eliminates most of these programs, while slightly increasing funding for federal law enforcement and directing resources to state and local terrorism preparedness initiatives under the Homeland Security Department.

The eliminations include the following: Edward Byrne formula and discretionary grants; Violence Against Women Act programs; the State Criminal Alien Assistance Program; the Juvenile Justice Incentive Block Grant program; and Local Law Enforcement Block Grants. These programs would require approximately \$2.5 billion in 2004 to maintain purchasing power at the 2002 level.

## **Cuts to Infrastructure and Energy**

- ***Highway Funding Cut*** — The President's budget provides 2004 federal-aid highway funding of \$29.3 billion, a cut of \$2.5 billion (7.8 percent) from the 2002 enacted level of \$31.8 billion. This \$2.5 billion cut for 2004 follows the highly controversial \$8.6 billion cut the President proposed last year. Congress rejected the President's proposal for 2003 and will almost certainly undo at least half of that cut in the pending omnibus appropriations bill. Cuts to federal highway aid will only exacerbate the already severe fiscal difficulties that states are facing.
- ***Drastic Cut to Aid for Wastewater Infrastructure*** - For 2004, the President's budget dramatically cuts the Clean Water State Revolving Fund (SRF) Program, which provides seed money to state revolving loan funds (SRFs). These SRFs in turn loan money for improvements to wastewater treatment facilities. The budget provides \$850 million, \$500 million (37.0 percent) less than the 2002 enacted level and \$546 million (39.1 percent) below the level needed to maintain purchasing power at the 2002 level.
- ***Rural Utilities*** — The budget provides \$19 million in appropriated funding for rural electrification loans, rural telephone loans, and the Rural Telephone Bank. This represents a cut of \$16 million (45.7 percent) from the amount needed to maintain purchasing power at the 2002 level. The Rural Utilities Service at the U.S. Department of Agriculture administers this funding to establish, expand, and modernize vital infrastructure for rural America.
- ***Fossil Energy Research and Development*** — The budget provides \$519 million for fossil energy R&D, a decrease of \$124 million (19.3 percent) from the amount needed to maintain purchasing power at the 2002 level. The budget provides \$321 million for the President's Clean Coal Initiative, a cut of \$12 million (3.7 percent) from the comparable 2002 appropriation, but an increase of \$5 million (1.6 percent) over the 2003 request.

## President Bush's New User Fees and Charges

During the previous administration, Congressional Republicans railed against the user fees and charges in the President's budgets. Republicans charged that President Clinton was once again raising "taxes" on American citizens and businesses. If this Republican logic is applied to President Bush's 2004 budget, it appears that part of his new tax agenda is raising \$15.3 billion over the next five years in new "taxes" on everyone from veterans to egg producers.

Following are brief descriptions of some of these user fee proposals:<sup>2</sup>

### Department of Agriculture

- ***Animal and Plant Health Inspection Service (APHIS)*** — The budget imposes new user fees for the cost of animal welfare inspections, such as for animal research centers, humane societies, and kennels. Amount over five years: \$40 million.
- ***Food Safety and Inspection Service (FSIS)*** — The President's budget imposes a new user fee on the meat, poultry, and egg industries to cover the costs of extra shifts for inspection services. These new costs may very well be passed on to consumers. Amount over five years: \$610 million.
- ***Grain Inspection, Packers, and Stockyards Association (GIPSA)*** — The budget collects a new license fee to cover the cost of administering GIPSA's packers and stockyards program and a user fee to cover the cost of the standardization program. Amount over five years: \$152 million.

### Department of Commerce

- ***Higher Patent and Trademark Office (PTO) Fees*** - The budget increases fees charged for PTO's services. Amount over five years: \$1.1 billion.

### Department of Health and Human Services

- ***Food and Drug Administration (FDA)*** — The President's budget imposes a new fee for the review of drugs for animals. Amount over five years: \$25 million.
- ***Medicare Fees*** — The budget imposes new fees on providers submitting duplicate or unprocessable claims. The budget also imposes a new filing fee for providers who submit Medicare appeals. Amount over five years: \$1.0 billion.

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<sup>2</sup> For the full list, see p.92 of the 2004 *Analytical Perspectives*.

## Department of Homeland Security

- ***Homeland Security Fees*** — The budget extends and increases user fees that are set to expire at the end of this fiscal year: a border security conveyance and passenger fee and a merchandise processing fee. Amount over ten years: \$18.9 billion.

## Department of the Interior

- ***Abandoned Mine Reclamation Fees*** — The budget extends fees on coal, which fund grants to states to reclaim abandoned mine lands. Amount over five years: \$1.3 billion.
- ***National Indian Gaming Commission Activity Fees*** — The budget abolishes the current annual cap of \$8 million for fees on gaming operations on Indian land. Amount over ten years: \$41 million.

## Department of State

- ***Machine-Readable Visa Fees*** — The budget increases this user fee to cover the costs of meeting new requirements for the visa application process. Amount over five years: \$1.5 billion.

## Department of Treasury

- ***Internal Revenue Service (IRS) User Fees*** — The budget extends IRS's authority to charge fees to individuals, corporations, and organizations for written responses to questions relating to their tax status or effects of particular transactions for tax purposes. Amount over five years: \$155 million.

## Department of Veterans Affairs

- ***Enrollment Fee for Priority Level 7 and 8 Veterans*** — The budget imposes a \$250 annual enrollment fee for medical care on non-service-connected Priority 7 (higher income, non-service-connected) veterans and all Priority 8 veterans. Amount over five years: \$1.3 billion.

## Environmental Protection Agency

- ***Pesticide Maintenance Fee*** — The budget extends fees for re-registering and reassessing pesticides. Amount over five years: \$24 million.
- ***Pre-Manufacturing Notification Fees*** — The budgets abolishes the caps on fees that EPA charges to chemical manufacturers when they want to introduce a new chemical into the marketplace. Amount over five years: \$36 million.

### **Federal Communications Commission (FCC)**

- *Spectrum Fees* — The budget authorizes the agency to charge an annual lease fee for the use of analog spectrum by commercial broadcasters. Amount over ten years: \$2.5 billion.

### **Nuclear Regulatory Commission (NRC)**

- *Extension of NRC Fees* — The budget extends NRC fees at their 2005 level for 2006 and beyond. Amount over five years: \$1.1 billion.

## **The Budget By Function**

The following three tables show the President’s budget broken down by budget function, which correspond with the major areas of federal government activity. The first table shows total spending (appropriated and mandatory) for each budget function. The second table shows the budget for appropriated (or “discretionary”) spending, which is spending controlled by the annual appropriations process. The third table shows the budget for mandatory spending, which is spending provided for through authorizing legislation. Mandatory spending includes entitlement programs such as Medicare, Medicaid, and Social Security, as well as interest payments on the federal debt. Figures may not add due to rounding.

**BUSH 2004 BUDGET AS ESTIMATED BY OMB**  
**TOTAL BUDGET**  
(In billions of dollars)

	2004	2005	2006	2007	2008	5 Yr. Total
<b>Total Budget</b>						
Budget Authority	2,243.0	2,363.3	2,496.2	2,621.6	2,753.3	12,477.5
Outlays	2,229.4	2,343.4	2,463.7	2,576.2	2,710.5	12,323.2
<b>Non-defense</b>						
Budget Authority	1,843.3	1,943.3	2,056.1	2,161.3	2,272.6	10,276.7
Outlays	1,839.0	1,933.3	2,040.5	2,139.8	2,250.0	10,202.5
050 National Defense						
Budget authority	399.7	420.0	440.0	460.3	480.7	2,200.8
Outlays	390.4	410.1	423.2	436.4	460.5	2,120.7
150 International Affairs						
Budget authority	23.8	28.0	30.6	32.1	33.3	147.9
Outlays	25.6	26.1	27.5	29.2	30.7	139.0
250 General Science, Space						
Budget authority	23.5	24.3	25.1	26.0	26.7	125.6
Outlays	22.9	23.8	24.7	25.4	26.2	123.1
270 Energy						
Budget authority	0.9	1.7	1.8	1.3	2.2	7.8
Outlays	0.9	1.5	1.8	1.2	1.8	7.2
300 Natural Resources and Environment						
Budget authority	30.4	31.4	32.1	32.8	33.5	160.2
Outlays	31.6	31.8	32.5	32.8	33.5	162.2
350 Agriculture						
Budget authority	21.1	24.3	23.9	23.0	21.5	113.8
Outlays	20.8	24.2	23.9	23.1	21.5	113.5
370 Commerce and Housing Credit						
Budget authority	9.6	9.5	9.6	11.6	11.3	51.5
Outlays	-0.7	-2.0	0.2	1.6	1.4	0.5
400 Transportation						
Budget authority	63.8	65.1	66.8	68.4	70.0	334.2
Outlays	63.4	64.3	65.1	66.8	68.9	328.6
450 Community and Regional Development						
Budget authority	13.6	13.9	14.2	14.5	14.9	71.1
Outlays	17.1	16.4	14.2	14.2	14.6	76.4
500 Education and Training						
Budget authority	86.0	86.1	87.5	89.3	91.5	440.4
Outlays	85.3	84.5	85.9	87.5	89.4	432.6
550 Health						
Budget authority	247.3	267.9	292.0	313.2	336.2	1,456.5
Outlays	246.6	267.0	291.2	311.7	334.7	1,451.1
570 Medicare						
Budget authority	258.6	275.9	305.3	327.2	349.4	1,516.4
Outlays	258.9	275.9	304.9	327.4	349.4	1,516.4
600 Income Security						
Budget authority	322.9	337.7	346.2	354.0	369.9	1,730.6
Outlays	325.0	340.9	349.4	356.7	369.1	1,741.1
650 Social Security						
Budget authority	498.8	517.5	539.7	565.9	594.6	2,716.5
Outlays	497.3	516.0	537.6	563.2	591.8	2,705.9
700 Veterans						
Budget authority	61.6	64.8	66.9	69.0	71.3	333.5
Outlays	62.0	67.0	66.6	65.9	70.9	332.5
750 Administration of Justice						
Budget authority	38.8	37.0	37.7	38.5	39.4	191.4
Outlays	39.4	38.9	39.5	37.9	38.7	194.4
800 General Government						
Budget authority	20.2	22.1	20.7	21.2	21.6	105.8
Outlays	20.5	22.0	20.5	21.0	21.5	105.5
900 Net Interest						
Budget authority	176.4	204.0	224.5	239.8	254.1	1,098.9
Outlays	176.4	204.0	224.5	239.8	254.1	1,098.9
920 Allowances						
Budget authority	-0.3	-0.3	-0.3	-0.3	-0.3	-1.5
Outlays	-0.3	-1.3	-1.1	0.2	0.3	-2.3
950 Undistributed Offsetting Receipts						
Budget authority	-53.7	-67.6	-68.3	-66.0	-68.5	-324.1
Outlays	-53.7	-67.6	-68.3	-66.0	-68.5	-324.1

**BUSH 2004 BUDGET AS ESTIMATED BY OMB  
DISCRETIONARY PROGRAMS ONLY  
(In billions of dollars)**

	2004	2005	2006	2007	2008 5 Yr. Total	
<b>Total Discretionary</b>						
Budget Authority	782.2	813.5	842.3	872.4	903.6	4,214.1
Outlays	818.8	850.0	869.8	891.4	925.9	4,355.9
<b>Non-defense discretionary</b>						
Budget Authority	383.0	393.9	402.6	412.4	423.2	2,015.1
Outlays	429.0	440.3	447.0	455.2	465.7	2,237.3
<b>Domestic Discretionary</b>						
Budget Authority	352.9	362.3	369.4	377.9	387.7	1,850.1
Outlays	370.3	380.0	384.3	390.0	398.2	1,922.8
050 National Defense						
Budget authority	399.2	419.6	439.7	460.0	480.4	2,199.0
Outlays	389.7	409.7	422.8	436.2	460.2	2,118.6
150 International Affairs						
Budget authority	28.6	30.0	31.5	32.8	33.8	156.6
Outlays	28.1	28.3	29.8	31.3	32.6	150.0
250 General Science, Space						
Budget authority	23.5	24.3	25.1	25.9	26.7	125.5
Outlays	22.7	23.7	24.7	25.4	26.2	122.7
270 Energy						
Budget authority	3.6	4.0	3.9	3.9	4.9	20.2
Outlays	3.6	3.8	4.0	3.9	4.6	20.0
300 Natural Resources and Environment						
Budget authority	28.0	28.5	29.1	29.7	30.5	145.7
Outlays	29.5	29.5	29.6	29.9	30.6	149.0
350 Agriculture						
Budget authority	5.4	5.6	5.7	5.8	6.0	28.5
Outlays	5.7	5.5	5.7	5.8	5.9	28.6
370 Commerce and Housing Credit						
Budget authority	-1.0	-0.6	-0.5	0.7	0.9	-0.4
Outlays	-0.7	-0.6	-0.6	0.6	0.8	-0.6
400 Transportation						
Budget authority	22.3	22.6	23.0	23.5	24.0	115.4
Outlays	61.4	62.2	63.0	64.8	66.8	318.3
450 Community and Regional Development						
Budget authority	13.9	14.2	14.5	14.8	15.3	72.6
Outlays	17.5	16.8	14.8	14.8	15.2	79.1
500 Education and Training						
Budget authority	75.2	76.6	78.2	80.0	82.0	392.1
Outlays	72.8	75.5	77.0	78.7	80.5	384.5
550 Health						
Budget authority	49.6	50.7	51.8	52.9	54.3	259.3
Outlays	48.2	49.8	51.0	52.0	53.2	254.3
570 Medicare						
Budget authority	3.7	3.8	3.9	4.0	4.1	19.5
Outlays	3.7	3.8	3.8	3.9	4.0	19.2
600 Income Security						
Budget authority	46.2	47.1	48.0	48.2	48.5	237.9
Outlays	51.2	53.0	54.3	54.4	53.7	266.5
650 Social Security						
Budget authority	4.3	4.4	4.5	4.5	4.7	22.3
Outlays	4.3	4.4	4.4	4.5	4.7	22.3
700 Veterans						
Budget authority	28.2	28.6	29.1	29.5	30.1	145.5
Outlays	27.9	28.5	28.9	29.4	30.0	144.6
750 Administration of Justice						
Budget authority	34.1	36.3	37.2	38.0	39.1	184.8
Outlays	35.6	38.2	39.1	37.9	38.8	189.6
800 General Government						
Budget authority	17.8	18.2	18.0	18.4	18.8	91.1
Outlays	17.9	18.1	17.9	18.2	18.6	90.6
900 Net Interest						
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0
920 Allowances						
Budget authority	-0.3	-0.3	-0.3	-0.3	-0.3	-1.5
Outlays	-0.3	-0.3	-0.3	-0.3	-0.3	-1.5
950 Undistributed Offsetting Receipts						
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0

**BUSH 2004 BUDGET AS ESTIMATED BY OMB  
MANDATORY AND OFFSETTING RECEIPTS TOTALS  
(In billions of dollars)**

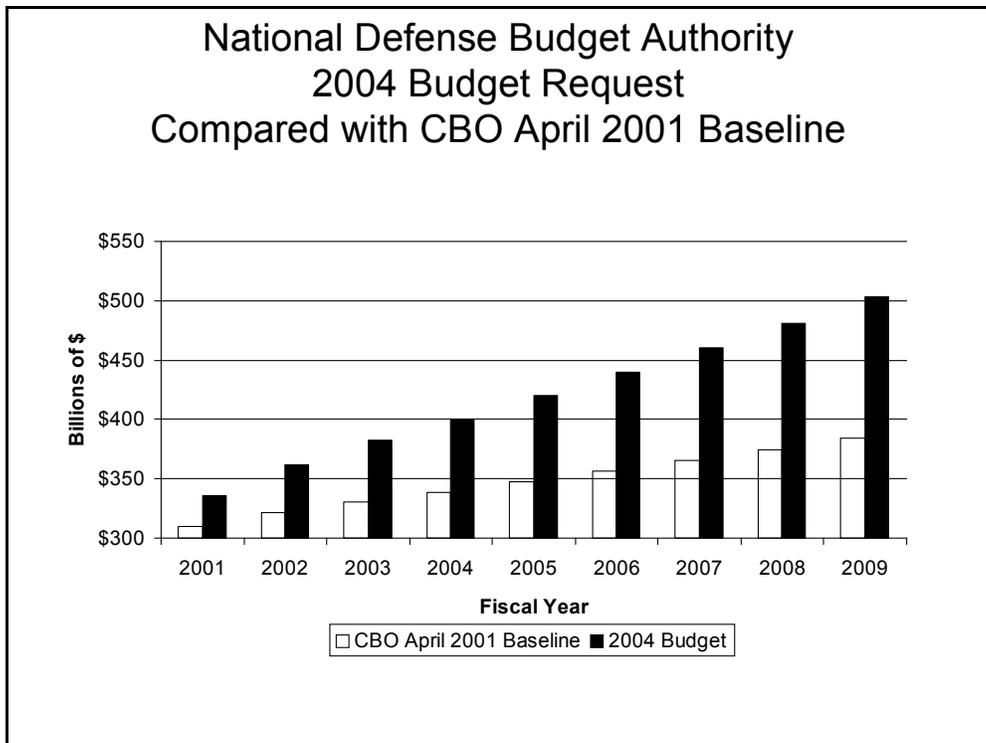
	2004	2005	2006	2007	2008	5 Yr. Total
<b>Total Mandatory</b>						
Budget Authority	1,460.8	1,549.8	1,653.9	1,749.2	1,849.7	8,263.4
Outlays	1,410.6	1,493.4	1,593.9	1,684.8	1,784.6	7,967.3
<b>Non-defense</b>						
Budget Authority	1,460.3	1,549.4	1,653.6	1,748.9	1,849.4	8,261.6
Outlays	1,410.0	1,493.0	1,593.5	1,684.5	1,784.2	7,965.3
050 National Defense						
Budget authority	0.5	0.4	0.3	0.3	0.3	1.8
Outlays	0.7	0.4	0.4	0.3	0.4	2.0
150 International Affairs						
Budget authority	-4.8	-1.9	-0.9	-0.7	-0.5	-8.7
Outlays	-2.4	-2.2	-2.3	-2.1	-1.9	-11.0
250 General Science, Space						
Budget authority	0.0	0.0	0.0	0.0	0.0	0.2
Outlays	0.1	0.1	0.1	0.0	0.0	0.3
270 Energy						
Budget authority	-2.7	-2.3	-2.2	-2.6	-2.7	-12.4
Outlays	-2.7	-2.4	-2.2	-2.7	-2.8	-12.8
300 Natural Resources and Environment						
Budget authority	2.4	3.0	3.0	3.1	3.1	14.6
Outlays	2.1	2.3	2.9	2.9	2.9	13.2
350 Agriculture						
Budget authority	15.8	18.7	18.2	17.1	15.5	85.3
Outlays	15.1	18.7	18.3	17.3	15.6	84.9
370 Commerce and Housing Credit						
Budget authority	10.6	10.1	10.0	10.8	10.4	51.9
Outlays	0.0	-1.3	0.8	0.9	0.6	1.0
400 Transportation						
Budget authority	41.6	42.5	43.8	44.9	46.0	218.7
Outlays	2.0	2.1	2.1	2.0	2.0	10.3
450 Community and Regional Development						
Budget authority	-0.3	-0.3	-0.3	-0.3	-0.4	-1.6
Outlays	-0.4	-0.5	-0.6	-0.6	-0.6	-2.7
500 Education and Training						
Budget authority	10.8	9.5	9.3	9.3	9.5	48.3
Outlays	12.6	9.0	8.9	8.8	8.9	48.1
550 Health						
Budget authority	197.7	217.2	240.3	260.3	281.9	1,197.3
Outlays	198.4	217.1	240.2	259.7	281.5	1,196.8
570 Medicare						
Budget authority	254.9	272.1	301.4	323.2	345.3	1,496.9
Outlays	255.2	272.1	301.1	323.5	345.4	1,497.2
600 Income Security						
Budget authority	276.7	290.6	298.2	305.8	321.4	1,492.7
Outlays	273.7	287.9	295.1	302.3	315.5	1,474.6
650 Social Security						
Budget authority	494.6	513.1	535.3	561.3	589.9	2,694.2
Outlays	493.0	511.6	533.1	558.7	587.2	2,683.6
700 Veterans						
Budget authority	33.4	36.1	37.8	39.5	41.2	188.0
Outlays	34.1	38.5	37.7	36.5	41.0	187.9
750 Administration of Justice						
Budget authority	4.6	0.7	0.6	0.5	0.3	6.7
Outlays	3.8	0.7	0.3	0.1	-0.1	4.8
800 General Government						
Budget authority	2.4	3.9	2.7	2.8	2.8	14.7
Outlays	2.6	3.9	2.7	2.8	2.9	14.9
900 Net Interest						
Budget authority	176.4	204.0	224.5	239.8	254.1	1,098.9
Outlays	176.4	204.0	224.5	239.8	254.1	1,098.9
920 Allowances						
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	-1.1	-0.9	0.5	0.6	-0.8
950 Undistributed Offsetting Receipts						
Budget authority	-53.7	-67.6	-68.3	-66.0	-68.5	-324.1
Outlays	-53.7	-67.6	-68.3	-66.0	-68.5	-324.1

## Function 050: National Defense

The National Defense function includes the military activities of the Department of Defense (DOD), the nuclear-weapons related activities of the Department of Energy (DOE) and the National Nuclear Security Administration (NNSA), the national security activities of several other agencies such as the Selective Service Agency, and portions of the activities of the Coast Guard and the Federal Bureau of Investigation. The programs in this function include: the pay and benefits of active, Guard and reserve military personnel; DOD operations including training, maintenance of equipment and facilities; health care for military personnel and dependents; procurement of weapons; research and development; construction of military facilities, including housing; research on nuclear weapons; and the cleanup of nuclear weapons production facilities.

The President's budget includes \$399.2 billion for all national defense appropriated activities, including \$379.9 billion for DOD, \$16.9 billion for the nuclear weapons-related activities of DOE, and \$2.4 billion for miscellaneous national security activities in other agencies such as the Federal Bureau of Investigation and the Coast Guard functions of the Department of Homeland Security.

- ***Increased Funding for National Defense*** – Appropriations bills funding DOD for 2003 have been enacted, while those for DOE and other programs in the defense function have not. Comparisons in this section to the amount needed to maintain purchasing power are to the 2003 enacted level plus inflation for DOD, and to the 2002 enacted level plus inflation for DOE and other programs. Over five years, the budget increases funding for national defense by \$136.9 billion, or 6.6 percent, above the amounts needed to maintain purchasing power at the 2003 appropriated level for DOD and at the 2002 appropriated level for the programs of DOE and other agencies.
- ***Long-Term Defense Increase is Significant*** – The increases described above are only a portion of the actual and planned surge in defense spending since the beginning of the Bush Administration. The current Bush Administration defense budget plan, which extends through 2009, exceeds the CBO baseline released in April 2001 (at the same time President Bush presented his initial budget request) by \$655 billion over the nine year period from 2001 through 2009. The chart below shows the increase in planned defense budgets from the \$300 billion level (the total for national defense in 2000 was \$304.1 billion) to the \$399.7 billion requested for 2004 and the \$503.0 billion planned for 2009. Part of this increase to date is attributable to the response to the attacks of September 11, 2001 and the subsequent war on terrorism (Operation Enduring Freedom); however, as explained below, the Administration's budget plans do not include any future incremental costs of the war on terrorism, or the potential costs of a conflict with Iraq.



- No Reserve Fund for Potential War with Iraq*** – The President’s budget includes no funding for a potential war against Iraq. Supplemental funding that would further increase the deficit would be required to pay for any military operations in Iraq. Such costs could be significant. Last September, the President’s then-chief economic adviser, Lawrence Lindsey, was reported as estimating the cost of an attack on Iraq at \$100 to \$200 billion. That same month, CBO estimated the cost of a war at \$6 to \$9 billion a month, in addition to the costs of deploying forces to the region and bringing them back.

An analysis by the Democratic staff of the House Budget Committee estimated the direct military costs of a war with Iraq at \$30 to \$60 billion. When other indirect costs such as the costs of a post-conflict occupation force, foreign assistance to allies in the region, interest costs, and the potential impact on the economy are included, the staff analysis concluded that \$100 to \$200 billion was a reasonable estimate of the potential costs of such a conflict.

- No Funding for Incremental Costs of the War on Terrorism*** – The President’s budget includes no funding for the incremental costs of ongoing overseas operations in the global war against terrorism. Such costs include higher operating tempos and the activation of Guard and reserve units. Congress did not approve the Administration’s request in the 2003 budget for \$10.0 billion in unrestricted funds for such purposes. DOD is currently borrowing \$1.5 billion a month from its operations and personnel

accounts to pay for the costs of these operations in 2003. Secretary of Defense Rumsfeld has testified that a supplemental appropriation for 2003 will be required for these costs, and for the costs already incurred in deploying forces to Southwest Asia in preparation for potential operations in Iraq. Additional supplemental funding that would further increase the deficit would be required to pay for continuing the war on terrorism in 2004.

## The Department of Defense

- ***Increase for the Department of Defense (DOD)*** — The budget increases funding for DOD by \$15.3 billion, or 4.2 percent, above the enacted 2003 amount. Over five years, the budget increases funding for DOD by \$129.2 billion, or 6.5 percent, above the amount needed to maintain purchasing power at the 2003 enacted level.
- ***No Major Changes in Direction*** – The budget makes no major changes in the size or composition of the military force structure (ground divisions, ships, or aircraft) and does not cancel any major new weapons systems. It does accelerate the retirement of some existing systems.

### Nominal Programmatic Increase for DOD (Budget Authority in Billions of Dollars)

2003 Level	364.6
<u>2004 Budget</u>	<u>379.9</u>
Nominal Increase	15.3

As the table indicates, the nominal DOD programmatic increase over the 2003 enacted level is \$15.3 billion (4.2 percent). It is \$5.5 billion (1.5 percent) more than needed to maintain purchasing power at the 2003 level.

- ***Military Pay and Benefits*** — The budget includes targeted raises in basic military pay that range from 2.0 percent to 6.3 percent, depending on rank and years of service. These raises reportedly average around 4.1 percent. Only newly enlisted personnel would receive the lowest pay raise of 2.0 percent.

The budget also includes funding to continue an initiative begun by the Clinton Administration to gradually eliminate all “out-of-pocket” housing costs for military personnel living off-base by 2005 through increases to the basic allowance for housing (BAH). The budget increases BAH so that out-of-pocket expenses will be lowered from 7.5 percent in 2003 to 3.5 percent in 2004.

The budget combines the accounts used for the pay and benefits of active, reserve, and National Guard military personnel into a single account for each military service, to provide increased flexibility when large numbers of Guard and reserve personnel are being called to active duty, as is the case in 2003.

- ***Military Personnel Strengths*** — The budget contains no significant changes in active duty, National Guard, or reserve personnel strengths, nor does it include funds for continuing the increased activation of Guard or reserve personnel to support the global war on terrorism in 2004. Increases in the military personnel budget therefore reflect increases in pay and benefits, not additional personnel levels.

**The DOD Budget by Major Account:  
Comparisons with the 2003 Level and  
the Level Needed to Maintain Purchasing Power**  
(Budget Authority in Billions of Dollars)

	<u>2004 Budget</u>	<u>Enacted 2003</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Inflation- Adjusted 2003</u>	<u>Dollar Change</u>	<u>Percent Change</u>
O&M	133.2	129.4	3.9	3.0	132.5	0.7	0.5
Procurement	74.4	71.4	3.0	4.2	73.2	1.2	1.7
RDT&E	61.8	56.8	5.0	8.9	58.7	3.2	5.4
Mil Construction	5.0	6.3	-1.3	-20.2	6.4	-1.4	-22.1
Family Housing	4.0	4.2	-0.2	-4.5	4.3	-0.3	-6.1

*Numbers may not add exactly due to rounding.*

- ***Department of Defense by Major Account*** — The budget increases every major DOD account except military construction, which it cuts by 20.2 percent below the 2003 enacted level, and family housing, which decreases slightly. The table compares the President’s request with both the 2003 enacted level and the level needed to maintain purchasing power at the 2003 level (the “Inflation-Adjusted” column).<sup>3</sup>

As the table indicates, the major DOD accounts related to current and future military performance – Operations and Maintenance (O&M); Research, Development, Test, and

<sup>3</sup> Military personnel is excluded from the table because of anomalies that occur when trying to adjust for inflation.

Evaluation (RDT&E); and Procurement – all increase in 2004 compared to both the 2003 enacted level and the level needed to maintain that purchasing power in 2004.

The DOD budget proposes to move \$17.9 billion in programs, including the Defense Health Program and the Chemical Agents and Munitions Destruction account, from their traditional funding titles, such as O&M and Procurement, to a new “Other” category. For comparability with previous years, the table above reflects the existing structure, as does the President’s budget and other OMB documents. However, DOD documents reflect the new proposed structure and will not agree with this table.

- ***Operations and Maintenance (O&M)*** — The O&M account is critical to readiness because it funds training, military exercises and operations, spare parts, fuel, and all the other items a military force needs to operate its forces and installations. As the table indicates, the O&M budget is \$3.9 billion more than the 2003 enacted level, and slightly above the level needed to maintain purchasing power at the 2003 level.

However, in the event of military operations in Iraq, DOD would need to use these O&M funds for other purposes unless and until supplemental funding is provided, diverting resources from normal O&M activities.

- ***Procurement*** — The budget includes \$74.4 billion for procurement of weapons systems and military equipment including aircraft, ships, vehicles, and satellites. This level is \$3.0 billion (4.2 percent) more than the 2003 enacted level, and is \$1.2 billion (1.7 percent) more than needed to maintain purchasing power at the enacted level. Of the \$129 billion in real growth in DOD spending over the five-year period, half (\$59 billion) is in the procurement accounts. The most significant increases from the 2003 enacted level are for shipbuilding (up \$2.4 billion, or 26.1 percent) and equipment for Special Operations Forces (up \$1.1 billion, or 129.4 percent). The largest decrease is for the C-17 aircraft, which is \$774 million, or 18.1 percent, below the 2003 enacted level.
- ***Research and Development*** — The budget includes \$61.8 billion for 2004 for research, development, test, and evaluation programs (RDT&E). This level is \$5.0 billion (8.9 percent) more than the 2003 enacted level, and \$3.2 billion (5.4 percent) more than needed to maintain purchasing power at the 2003 level.
- ***Military Construction and Family Housing*** — These accounts fund the facilities where military personnel work and live. The 2004 funding level of \$5.0 billion for construction of new facilities in the budget is \$1.3 billion (20.2 percent) below the 2003 enacted level. The budget then doubles this 2004 funding level to \$10.4 billion in 2006, after completion of the 2005 base closure round, with additional increases in later years.

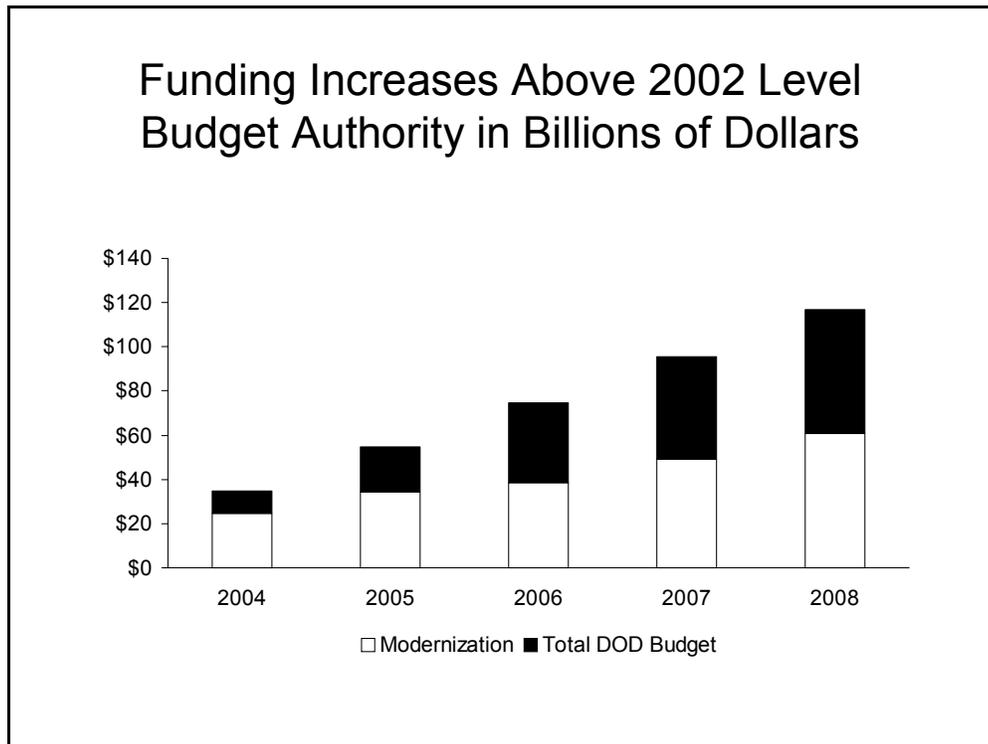
## Selected Program Highlights

- ***Ballistic Missile Defense*** — The budget includes \$9.1 billion in funding within the RDT&E and procurement accounts for ballistic missile defense (BMD) programs, an increase of \$1.5 billion, or 19.7 percent, above the 2003 enacted level. The Administration proposes to field a limited missile defense system over the next two years, beginning with a deployment of 10 land-based interceptors in 2004 to defend against potential missile attacks from North Korea. The budget includes proposed legislation that would exempt this program from operational testing requirements and other statutes governing major defense acquisition programs.
- ***Reduced Funding for Homeland Security*** – OMB estimates that the DOD budget includes \$6.7 billion for homeland security activities, including force protection measures at military installations and combat air patrols over the United States. This represents a decrease of \$2.1 billion (23.6 percent) from the 2003 enacted level of \$8.9 billion. The Administration states that this decrease is the result of one-time force protection investments that were made in 2003 and will not be repeated in 2004. Much of DOD’s homeland security funding is for protecting DOD forces and installations.
- ***Science and Technology R&D*** – Science and technology (S&T) programs represent investment in the future technologies needed to keep our military capability second to none. Both the Administration and Congress have embraced the goal of devoting 3.0 percent of DOD resources to S&T programs. However, for the third straight year, the Administration’s budget increases overall R&D funding levels while funding S&T programs below the previous year’s enacted level, and below the 3.0 percent goal. The budget funds S&T programs at \$10.2 billion for 2004, a decrease of \$541 million from the 2003 enacted level (or 2.95 percent of the DOD topline). This would reduce the share of DOD funding devoted to S&T programs to 2.7 percent.
- ***Training and Equipping Foreign Military Forces*** – The DOD budget includes \$200 million to train and equip the military forces of cooperating nations in the war on terrorism.
- ***Personnel Management*** – Secretary of Defense Rumsfeld has stated that DOD is considering a proposal to “establish a National Security Personnel System that will give the Department of Defense greater flexibility in how it handles and manages its civilian personnel”.<sup>4</sup> This proposal was not included in the budget submission.

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<sup>4</sup> Testimony to the House Armed Services Committee, February 5, 2003.

- **Transformation and Modernization of Military Capabilities** – Since the late 1990s both DOD and Congress have stressed the importance of transforming the military to address future threats. Transformation is mainly funded in the RDT&E and procurement accounts (collectively referred to as the modernization accounts) used to develop and procure new systems. The Bush Administration’s initial defense budget request for 2002



preceded the completion of their strategy review (the Quadrennial Defense Review released in September 2001) and did not fully reflect their emphasis on transformation. As the chart below shows, the increased funding in this five-year budget plan for modernization and transformation, over and above that 2002 level, is made possible by the increases in the overall DOD budget, allowing DOD to pursue transformation without having to make major reductions in other programs.

- **DOD Nonproliferation** — The bulk of U.S. nonproliferation funding is within DOE, but the DOD budget includes the Cooperative Threat Reduction program. This program is often called the Nunn-Lugar program, after the primary legislative sponsors of it, former Sen. Sam Nunn and Sen. Richard Lugar. The Nunn-Lugar program focuses on the dismantlement of nuclear missiles and chemical weapons. The budget includes \$451 million for the Nunn-Lugar program, which is \$37 million more than the 2003 enacted level.

## Department of Energy National Security Activities

The budget provides \$16.6 billion for DOE nuclear weapons-related activities. This level is approximately \$1.0 billion (6.8 percent) more than the level needed to maintain purchasing power at the 2002 enacted level.

- ***Nuclear Nonproliferation Programs*** — DOE oversees several important programs to stop the spread of nuclear materials to terrorist groups and nations that are hostile to the United States. Most of these programs are focused on Russia and other states of the former Soviet Union. The budget provides \$1.3 billion for these programs for 2003; which is \$175 million, or 15.0 percent, more than the amount needed to maintain purchasing power at the 2002 level.
- ***Weapons Activities/Stockpile Stewardship*** — This program maintains the safety and reliability of nuclear weapons in the absence of underground tests. Stockpile stewardship relies on computer modeling, surveillance of weapons, and experiments that do not produce nuclear yields. The budget provides \$6.4 billion for the stockpile stewardship program, which is \$643 million, or 11.2 percent, more than the level needed to maintain 2002 purchasing power.
- ***Cleanup of Former Weapons Production Sites*** — The budget provides \$5.8 billion in the Defense Site Acceleration account to mitigate or clean up nuclear and other hazardous waste at DOE's former weapons production sites. This is \$341 million, or 6.2 percent, more than the amount needed to maintain purchasing power at the 2002 level.

## Function 150: International Affairs

Function 150 contains funding for all U.S. international activities, including: operating U.S. embassies and consulates throughout the world; providing military assistance to allies; aiding developing nations; dispensing economic assistance to fledgling democracies; promoting U.S. exports abroad; making U.S. payments to international organizations; and contributing to international peacekeeping efforts. Funding for all of these activities constitutes about one percent of the federal budget.

Overall, the President's budget provides \$28.6 billion in funding for appropriated international affairs programs. This amount is \$2.1 billion more than the amount needed to maintain purchasing power at the 2002 level. The budget provides \$2.9 billion more than the Administration requested for 2003. Of that increase, \$1.3 billion funds the Administration's proposed Millennium Challenge Account initiative (see below).

### International Security Assistance

- ***Foreign Military Financing (FMF)***  
— The FMF program provides grants to help U.S. allies acquire military articles, services, and training from the United States. The budget provides \$4.4 billion in funding for FMF, which is \$272 million more than the amount needed to maintain purchasing power at the 2002 level and \$307 million more than the Administration request for 2003.

#### ***Budget Omits International Affairs Costs Associated with Possible War with Iraq*** —

The budget does not include the humanitarian and reconstruction costs that could arise from a possible war with Iraq. Press reports suggest the possibility of additional foreign assistance to states such as Turkey, Jordan, and Israel in connection with a possible war with Iraq. The budget does not contain additional funding for such assistance.

As in previous years, the top three recipients of FMF financing are Israel, Egypt, and Jordan. In 1998, Israel and the United States reached an agreement to increase FMF assistance to Israel by \$60 million per year for 10 years and to decrease Economic Support Fund aid (see below) by \$120 million per year for 10 years. The budget maintains the funding glide path envisioned in the 1998 agreement, providing \$2.16 billion for FMF assistance for Israel for 2004. The budget includes \$1.3 billion in FMF funding for Egypt, which has been the typical level of FMF assistance for Egypt since 1986. Jordan receives \$206 million FMF funding, \$8 million more than the Administration requested for 2003.

The budget provides FMF funding for a number of other "front-line states" in the war on terrorism, including \$150 million for Afghanistan, \$75 million for Pakistan, and \$50 million for Turkey.

- ***Economic Support Fund (ESF)*** — The ESF program provides bilateral economic assistance to countries of particular importance to U.S. foreign policy. The budget provides \$2.5 billion for ESF activities for 2004. This is \$219 million less than the amount needed to maintain purchasing power at the 2002 level, and \$45 million more than the Administration request for 2003.

The budget maintains the funding glide path envisioned in the 1998 agreement between Israel and the United States discussed above, providing \$480 million for ESF assistance for Israel for 2004. In a separate agreement reached by Egypt and the United States in 1998, ESF assistance to Egypt was scheduled to decrease by \$40 million per year. The budget continues the glide path envisioned in this agreement, including \$575 million in ESF funding for Egypt for 2004.

The budget provides ESF funding for other “front-line states” in the war on terrorism, including \$250 million for Jordan, \$200 million for Pakistan, \$200 million for Turkey, and \$150 million for Afghanistan. The budget also provides \$145 million of ESF funding for the Middle East Partnership Initiative, which is designed to encourage structural reforms in the region. This initiative will fund programs that, among other things, expand economic and educational opportunities and support democratic reforms and the rule of law.

- ***Non-Proliferation, Anti-Terrorism, Demining, and Related Programs (NADR)*** — The budget provides \$385 million for NADR programs, which, among other things, provide anti-terrorism training to foreign governments and work to reduce the dangers posed by nuclear material. This amount is \$57 million less than the amount needed to maintain purchasing power at the 2002 level and \$13 million more than the Administration requested for 2003. The 2004 budget for NADR programs does not include funding for the Korean Peninsula Development Organization (KEDO), reflecting the November 2002 decision by KEDO to suspend shipments of heavy oil to North Korea.

## **State Department**

- ***Diplomatic and Consular Programs*** — The budget provides \$4.2 billion for the operations of most diplomatic and consular programs, including the support of our embassies and much of the State Department. This amount is \$281 million more than the amount needed to maintain purchasing power at the 2002 level, and \$227 million more than the Administration’s request for 2003. The budget includes funding to hire 399 new Foreign Service and Civil Service staff in the final year of the Department’s Diplomatic Readiness Initiative.

- ***Embassy Security Construction and Maintenance (ESCM)*** — The budget provides \$1.5 billion for ESCM activities. This amount is \$17 million less than the amount needed to maintain purchasing power at the 2002 level, and \$209 million more than the Administration request for 2003. ESCM funding supports the construction and maintenance of safe and secure U.S. diplomatic facilities.

## New Initiatives

- ***Millennium Challenge Account (MCA)*** — The budget includes \$1.3 billion for this new initiative, outlined by President Bush in March 2002. Funds from the MCA will be made available on a competitive basis to countries with low and moderate per capita incomes. Countries will receive MCA funds based on their performance on 16 economic and political indicators, grouped into three clusters: good governance, investment in people, and economic policy. The Administration has indicated its intention to request MCA levels adequate to provide \$5 billion in annual assistance by 2006. There is a discrepancy between the text of the budget documents, which reiterates this intention, and the supporting numbers which show the \$1.3 billion for 2004 increasing by small amounts in subsequent years, reaching a level of only \$1.4 billion by 2008. Congress has not yet considered legislation authorizing the MCA.
- ***Global AIDS Initiative*** —In his State of the Union Address, the President announced his Emergency Plan for AIDS Relief, a five-year, \$15 billion U.S. commitment—including \$10 billion in new money—to fight AIDS internationally. For 2004, the budget contains a total of \$2 billion toward this initiative in Function 150 and in HHS and CDC accounts. The Administration reports that \$1 billion of this \$2 billion represents new funding, though it is unclear whether this figure is based on a comparison with 2002 or the with the Administration’s 2003 budget request.

***U.S. Foreign Aid in Comparison to Other Developed Countries*** —According to the most recent (2001) foreign aid figures from the Organization for Economic Cooperation and Development (OECD), the United States ranks 22<sup>nd</sup> in the world as a giver of foreign aid as a percentage of Gross National Product (GNP). The U.S. level is about one-tenth of one percent of GNP, which is about one-fourth of the average effort of developed countries. In absolute amount of foreign aid, the United States ranks first for 2001, after ranking second to Japan for several previous years.

Within Function 150, the budget provides \$450 million in new funding for this initiative. This new funding is not a contribution to the Global Fund to Fight AIDS, Tuberculosis, and Malaria; the budget continues last year’s request of \$200 million for the Global Fund, \$100 million of which is in Function 150.

## Other Program Highlights

- ***Development Assistance and Child Survival and Health Programs*** — The budget provides \$1.3 billion for Development Assistance Programs and \$1.5 billion for Child Survival and Health Programs. These amounts are \$152 million and \$12 million more, respectively, than the amounts needed to maintain purchasing power at the 2002 level. The Administration's 2003 budget requested a total of \$2.8 billion for these two programs combined, and this year's budget freezes that level.
- ***Funding for Afghanistan*** — The Administration's budget for 2003 indicated that funding for Afghanistan in specific accounts was "To Be Determined." The Administration subsequently indicated that its budget included about \$140 million for Afghanistan. The 2004 budget includes at least \$532 million for Afghanistan, in accounts including FMF, ESF, Development Assistance (\$150 million per account), and International Narcotics Control and Law Enforcement (\$40 million). The budget may provide additional unspecified funding for Afghanistan in other accounts.
- ***Counternarcotics Funding*** — The budget provides \$1.0 billion for all international counternarcotics programs, including \$731 million for the Andean counternarcotics control program. For all international counternarcotics programs, the budget provides \$27 million more than the amount needed to maintain purchasing power at the 2002 level. The budget provides the same amount for Andean counternarcotics control as provided in the 2003 budget request.
- ***Funding Reduced for Export-Import Bank of the United States*** — As the official credit agency of the United States, the Ex-Im Bank provides financing assistance to U.S. exporters and, when necessary, matches foreign subsidies so that U.S. companies can compete for business on an equal footing. The budget provides no new funding for 2004 (except for administrative expenses), but the Administration states that funding carried over from previous years will be sufficient to fund a loan level of \$14.6 billion, an increase over the \$11.5 billion in lending levels supported by last year's budget request of \$541 million.

## Function 250: General Science, Space, and Technology

This function includes the National Science Foundation (NSF), programs at the National Aeronautics and Space Administration (NASA) except for aviation programs, and general science programs at the Department of Energy (DOE) and the Department of Homeland Security.

The President's budget provides \$23.5 billion in funding for appropriated science and technology programs for 2004, which is \$671 million (2.9 percent) above the amount needed to maintain purchasing power at the 2002 level.

- **NASA** — The budget provides \$14.5 billion for NASA programs for 2004 in this function. Another \$978 million for NASA science, aeronautics, and technology is included in Function 400 (Transportation), bringing NASA's total to \$15.5 billion, which is almost exactly the amount needed to maintain purchasing power at the 2002 level.

— **Space Shuttle:** The budget includes \$4.0 billion for the space shuttle, which is about the amount needed to maintain purchasing power at the 2002 level<sup>5</sup>, and \$182 million (4.8 percent) over the President's comparable 2003 request (which is \$3.8 billion). As shown in the box to the right, Congress has appropriated almost exactly what the President requested for the shuttle in recent years.

- **NASA Science, Aeronautics, and Technology:** This budget function provides \$7.8 billion for NASA science, aeronautics, and technology, which is an increase of \$363 million over the amount needed to maintain purchasing power at the 2002 level.

### Space Shuttle Funding: 1994-2004

(dollars in billions)

	<u>Request</u>	<u>Enacted</u>
1994	4.196	3.779
1995	3.324	3.155
1996	3.232	3.179
1997	3.151	3.151
1998	2.978	2.928
1999	3.059	3.030
2000	2.986	3.011
2001	3.166	3.126
2002	3.284	3.279
2003	3.208	n.a.
2004	3.968	n.a.

Source: NASA

- **National Science Foundation** — The budget provides \$5.5 billion for appropriated programs in NSF, including \$68 million in Function 050 (National Defense). This is an increase of \$502 million (10.1 percent) over the amount needed to maintain purchasing power at the 2002 level. Overall, NSF continues its emphasis on nanoscience and

<sup>5</sup> Starting with 2004, NASA programs include the full cost of civil servant salaries and other costs previously included in other accounts in the NASA budget. Because of this accounting change, it is impossible to be precise about how these full costs would have been distributed in the 2002 budget.

engineering, information technology research, and education. The budget includes \$4.1 billion for research and related activities, a \$386 million increase over the 2002 purchasing power level. Of this total, \$1.1 billion comprises 40 percent of the federal funding for university-based research in math and physical sciences. The NSF budget also includes \$938 million to support education and research in all science, technology, engineering, and mathematics disciplines, up \$13 million over the amount needed to maintain purchasing power at the 2002 level.

- ***DOE General Science Programs*** — The budget slightly cuts funding for general science programs in the DOE, providing \$37 million less than the \$3.3 billion needed to maintain programs at the 2002 level. The DOE science programs include energy-related basic research in the following areas: the health and environmental consequences of producing and developing energy; new energy technologies and environmental mitigation; fusion as a potential energy source; advanced computational and networking tools critical to science research; and fundamental energy research.
- ***Department of Homeland Security*** — The budget contains \$273 million for science and technology programs in the Department of Homeland Security.

## Function 270: Energy

Function 270 comprises energy-related programs including research and development (R&D), environmental clean-up, and rural utility loans. Most of the programs are within the Department of Energy (DOE), although the rural utility program is part of the Department of Agriculture.

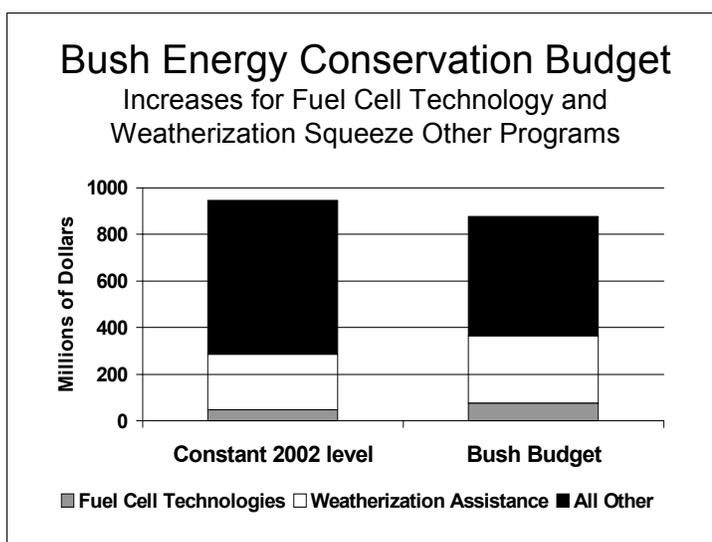
The President's budget for 2004 provides \$3.6 billion in appropriated funding for energy programs, which is \$169 million (5.0 percent) above the level needed to maintain purchasing power at the 2002 level. Over the five-year period (2004-2008), appropriated energy programs rise \$2.4 billion (13.6 percent) above this level.

The receipts from marketing federally produced power and the fees that commercial nuclear reactors pay when generating electricity are recorded as negative mandatory spending in this function. Consequently, total mandatory spending is negative; the government takes in more money than it spends on these energy programs.

- ***Drilling in the Arctic National Wildlife Refuge (ANWR)*** — As in the previous two years, the budget assumes the opening of ANWR to oil and gas drilling. See *Function 300 (Natural Resources and Environment)* for further discussion.
- ***Vehicle and Fuel Cell Technologies*** — The 2004 budget provides \$158 million for the FreedomCAR and Vehicle Technologies Program, which seeks to develop more energy efficient and environmentally conscious highway transportation. This level represents a cut of \$24 million from the comparable 2002 appropriation.

The budget also provides \$78 million for the Fuel Cell Technology program, whose goal is to develop and demonstrate fuel cell power system technologies for transportation and stationary applications. This level represents a \$31 million increase over the 2002 comparable appropriation.

- ***Energy Conservation*** — The budget includes \$876 million for energy conservation programs, which is \$71 million (7.5 percent) below the amount needed to maintain purchasing power at the 2002



level. The budget provides an increase in weatherization assistance grants under this category, providing \$288 million for 2004, or about \$50 million (20.8 percent) above the level necessary to keep pace with the 2002 level. When the increase for weatherization grants is coupled with the Fuel Cell Technologies increase (explained above), the budget for remaining programs, such as research and development for energy efficient buildings and industry, state energy program grants, and biomass and biorefinery systems, face cuts much steeper than 7.5 percent.

- **Rural Utilities** — The budget provides \$19 million in appropriated funding for rural electrification loans, rural telephone loans, and the Rural Telephone Bank. This represents a cut of \$16 million (45.7 percent) from the amount needed to maintain purchasing power at the 2002 level. The Rural Utilities Service at the U.S. Department of Agriculture administers this funding to establish, expand, and modernize vital infrastructure for rural America.

<b>Energy-Related Tax Proposals</b>	
Billions of Dollars	
<u>Proposal</u>	<u>Ten-Year Cost</u>
Extend & modify tax credit for producing electricity from certain sources	1.5
Provide tax credit for residential solar energy systems	0.1
Modify treatment of nuclear decommissioning funds	2.3
Provide tax credit for purchase of certain hybrid and fuel cell vehicles	3.2
Provide tax credit for energy produced from landfill gas	0.7
Provide tax credit for combined heat and power property	0.3
Provide excise tax exemption (credit) for ethanol	0.0
<b>Total</b>	<b>8.0</b>

*Numbers may not add due to rounding*

- **Power Marketing Administrations (PMAs)** — The budget provides \$185 million for the three federally subsidized PMAs, which sell to public utilities and cooperatives the electricity generated primarily by hydropower projects at federal dams. This represents a cut of \$35 million (15.9 percent) from the amount needed to maintain purchasing power at the 2002 level.

Like last year, the budget also provides an additional \$700 million in borrowing authority for Bonneville Power Administration. This additional authority allows Bonneville Power

Administration to finance new energy infrastructure investments in the Northwest to assure the continuity of a reliable Northwest energy supply. The proposal costs \$85 million in 2005 and \$700 million over the three-year period (2005-2007).

Also as in previous years, the budget transfers PMA receipts to the Corps of Engineers. Beginning in 2003, the financing of operation and maintenance cost of the Corps of Engineers in the Southeastern, Southwestern, and Western service areas will be funded by PMA receipts. Bonneville Power Administration already funds certain Corps of Engineers hydropower facilities in this manner. The proposal costs \$145 million in 2003 and \$1.5 billion over the five-year period (2004-2008).

- ***Renewable Energy Winners and Losers*** — Renewable energy programs receive \$444 million for 2004 in the budget, a \$37 million (9.1 percent) increase over the 2003 request. The hydrogen research program receives a \$48 million (120.6 percent) increase, while nearly all other programs are cut sharply relative to the 2003 request. The 2004 levels for solar energy, geothermal technology, and biomass/biorefinery systems are below the levels appropriated for 2002.
- ***Fossil Energy Research and Development*** — The budget provides \$519 million for fossil energy R&D, a decrease of \$124 million (19.3 percent) from the amount needed to maintain purchasing power at the 2002 level. The budget provides \$321 million for the President's Clean Coal Initiative, a cut of \$12 million (3.7 percent) from the comparable 2002 appropriation, but an increase of \$5 million (1.6 percent) over the 2003 request.
- ***Nuclear Waste Disposal*** — The budget provides \$161 million for 2004 to fund the Office of Civilian Radioactive Waste Management, which implements federal policy for disposal of commercial spent nuclear fuel and high-level radioactive waste resulting from the nation's atomic energy defense activities. This funding represents an increase of \$62 million (62.6 percent) above the level needed to maintain purchasing power at the 2002 level. The budget includes in Function 050 (National Defense) an additional \$430 million for disposal of weapons-related nuclear waste. The focus of this funding will shift from determining the viability of Yucca Mountain, Nevada, as the site for a permanent geological repository for nuclear waste to licensing, building, and operating the repository facilities and transportation system needed to accept, ship, and dispose of waste.

## Function 300: Natural Resources and Environment

Function 300 includes programs concerned with environmental protection and enhancement; recreation and wildlife areas; and the development and management of the nation's land, water, and mineral resources. It includes programs within the following federal departments and agencies: Agriculture, Commerce, Interior, Transportation, the Army Corps of Engineers, and the Environmental Protection Agency. This function does not include the large-scale environmental clean-up programs at the Departments of Defense and Energy. See *Function 050 (Defense)* for information on those programs.

### Third Straight Year of Cuts to Environmental Programs

In the area of natural resources and environment, the President's budget is very much a repeat of the last two years. The Administration continues to cut natural resources and environmental protection programs, while at the same time weakening the regulatory underpinnings of environmental protection. As part of its attempt to squeeze programs in this area, the Administration repeats many of the same proposals that were in previous budgets and that Congress flatly rejected.

For 2004, the President's budget significantly cuts funding for programs that protect public health and the environment. The budget provides \$28.0 billion in appropriations for these programs, which is \$2.7 billion (8.8 percent) below the level needed to maintain purchasing power at the 2002 level.

The President's budget continues to squeeze these programs in the following four years. Over five years (2004-2008), the budget's funding for appropriated programs is \$16.5 billion (10.2 percent) below the level required to maintain purchasing power at the 2002 level. This failure to maintain the federal commitment to environmental protection in the budget matches the Administration's efforts to weaken longstanding regulatory protections for our air, water, and forests.

### Budget Details

- ***Environmental Protection Agency (EPA)*** — For 2004, the President's budget provides \$7.6 billion in appropriations for EPA, \$800 million (9.5 percent) below the level needed to maintain purchasing power at the 2002 level and \$453 million (5.6 percent) below the 2002 enacted level. The budget features a few modest increases to particular programs. As described below, these increases are more than offset by a large cut to water infrastructure funding.

- ***Drastic Cut to Aid for Wastewater Infrastructure*** — For 2004, the President’s budget dramatically cuts the Clean Water State Revolving Fund (SRF) Program, which provides seed money to state revolving loan funds (SRFs). These SRFs in turn loan money for improvements to wastewater treatment facilities. The budget provides \$850 million, \$500 million (37.0 percent) less than the 2002 enacted level and \$546 million (39.1 percent) below the level needed to maintain purchasing power at the 2002 level.

The Administration claims that its 2004 funding levels will allow the nation to close the gap between current funding levels and future needs. However, EPA’s own reports and those by CBO and others document a huge unmet need for improvements to wastewater infrastructure that will not be met without a larger federal investment.

- ***Drinking Water Aid Frozen*** — The President’s budget freezes funding for the Drinking Water SRF Program at the 2002 enacted level of \$850 million. The President’s 2004 funding level is \$29 million (3.3 percent) below the level needed to maintain purchasing power at the 2002 level.
- ***Drilling in the Arctic National Wildlife Refuge*** — As in the previous two years, the President’s budget assumes opening the Arctic National Wildlife Refuge (ANWR) to oil and gas exploration. Although assumed in the budget, the Administration cannot implement this extremely controversial proposal without new legislation from Congress. Over the 2004-2008 period, the budget includes \$1.3 billion from lease bonuses for the federal treasury and \$1.3 billion collected and disbursed to the state of Alaska.
- ***Army Corps of Engineers*** — In another repeat from the previous two years, the President’s budget makes a significant cut to appropriations for the Army Corps of Engineers. This year, the budget cuts the Corps budget to \$4.2 billion,<sup>6</sup> \$722 million (14.7 percent) below the level needed to maintain purchasing power at the 2002 level. The President’s 2004 request is \$455 million (9.8 percent) below the 2002 enacted level of \$4.6 billion. In an effort to reduce the agency’s backlog of work on ongoing projects, the budget includes only five new studies and one construction start.

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<sup>6</sup> Some presentations show the Army Corps 2004 appropriations at \$4.0 billion. This discrepancy exists because the budget proposes to finance the costs of routine operation and maintenance of certain Army Corps hydropower facilities directly from receipts of the Power Marketing Administrations. This proposal, which requires new legislation from Congress, has the effect of lowering the Corps’ appropriations total by \$145 million for 2004. This proposal has been excluded from the analysis in order to provide a more consistent comparison.

The budget finally contains some of the policy reforms critics have demanded to keep the Corps from moving ahead on projects that are environmentally harmful and of questionable economic benefit. For instance, the budget requires that Corps projects be independently reviewed by outside experts before they are approved and it calls for improvements to the agency's economic models.

- ***Conservation Spending Category*** — The budget fails to fully fund the Land, Conservation, Preservation and Infrastructure Improvement Fund (LCPPI), the conservation spending category established in 2001 to provide dedicated funding for programs addressing the loss of open space, wildlife habitat, and cultural treasures. The conservation category is authorized at \$2.1 billion for 2004. The Administration's budget only provides \$1.6 billion, \$158 million below the level needed to maintain the current level of federal assistance and \$483 million below the level authorized in law.
- ***Land and Water Conservation Funding (LWCF)*** — Funding for LWCF programs in the President's 2004 budget totals \$901 million. (These programs are contained within the conservation spending category described above.) . The Administration claims that with this total it is fully funding the LWCF program. However, as in the past two years, it accomplishes this by using LWCF funding for programs not traditionally associated with the Fund. Full funding would mean \$900 million split evenly between federal land acquisition and grants to states for the same purpose. Instead, the Administration diverts significant amounts of LWCF funds to unauthorized programs, including agencies' operating expenses. Of the total requested, only 39 percent would fund authorized LWCF activities.
- ***Cap on Farm Conservation Security Program*** — Authorized by the 2002 Farm Bill, the Conservation Security Program provides financial and technical assistance for the conservation and protection of natural resources on private working lands. The President's budget caps this program's financial assistance at \$2 billion over ten years (2003-2012). Over the next five years (2004-2008), this proposal lowers federal spending by \$1.6 billion relative to projected spending under current law.
- ***Superfund*** — For 2004, the President's budget provides \$1.4 billion for cleaning up the nation's worst hazardous waste sites under EPA's Superfund program. This amount is \$80 million more than the 2002 enacted level and slightly more (\$23 million) than the amount required to maintain purchasing power at the 2002 level. With this funding, the Administration plans to complete 40 clean-ups.

The President's budget provides almost all of the funding (\$1.1 billion) from general revenues and the rest from the Superfund trust fund. The trust fund has historically supplied most of the funds appropriated for the Superfund program. However, the taxes

supplied most of the funds appropriated for the Superfund program. However, the taxes that fed into the trust fund expired in 1995, and the trust fund's balance is almost depleted.<sup>7</sup> Failure to reinstate the Superfund taxes has required the greater reliance on general revenues, which many interpret as a move away from the "polluter pays" principle behind the Superfund program. The President's budget does not reinstate the Superfund taxes.

- ***New Land Sale Authority for Bureau of Land Management*** — The President's budget gives the Bureau of Land Management new flexibility regarding the sale of federal lands and the use of receipts generated by land sales. Over the next five years (2004-2008) the Administration expects the agency to generate \$161 million in new mandatory receipts and to spend \$69 million of them.
- ***Environmental Tax Incentives*** — The President's budget contains two environmental tax incentives, one intended to encourage the clean-up of brownfields and the other to encourage voluntary land protection. First, the budget would permanently extend the provision in current law that allows businesses to expense certain environmental remediation costs that would otherwise count as capital investments. That provision is set to expire in December 2003. This extension of current law lowers federal revenues by \$1.2 billion over five years (2004-2008).

Second, the budget includes a tax incentive intended to encourage voluntary land conservation. The budget would exclude from income 50 percent of any gains from sales of land for conservation purposes. This incentive lowers federal revenues by \$209 million over five years (2004-2008).

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<sup>7</sup> The taxes that expired in 1995 consisted of excise taxes on petroleum and chemical feedstocks and a corporate environmental income tax.

## Function 350: Agriculture

Function 350 includes farm income stabilization, agricultural research, and other services administered by the U.S. Department of Agriculture (USDA). The discretionary programs include: research, education, and rural development programs; economics and statistics services; meat and poultry inspection; and a portion of the Public Law (P.L.) 480 international food aid program. The mandatory programs include commodity programs, crop insurance, and certain farm loans.

### Mandatory Spending

- **Farm Bill Programs** — The President's budget spends \$15.1 billion in 2004 on mandatory agriculture programs, which is consistent with OMB's estimate of current services. However, the budget cuts spending for certain farm bill conservation programs. See *Function 300 (Natural Resources and Environment)* for further details. The budget does not provide any additional spending for drought relief.
- **Crop Insurance** — As in previous years, the budget incorporates a change to the Standard Reinsurance Agreement (SRA) between the Federal Crop Insurance Corporation and private insurance companies. The budget caps underwriting gains at 12.5 percent, saving an estimated \$68 million in 2004 and \$354 million over five years. Many insurers have indicated they would stop offering insurance should a cap be placed on underwriting gains. This could disrupt the delivery system for crop insurance, forcing smaller crop insurance companies out of the market and making it more difficult for farmers to find insurance policies.

### Appropriated Programs

The President's budget provides \$5.4 billion for appropriated agriculture programs for 2004, \$495 million (8.4 percent) below the amount needed to maintain purchasing power at the 2002 level. Over the five-year period (2004-2008), the budget cuts agriculture funding by \$2.5 billion (8.0 percent).

- **Animal and Plant Health Inspection Service (APHIS)** — The budget provides a program level of \$814

#### Global Food for Education Initiative

The budget provides \$50 million in appropriated funding for 2004 for the Global Food for Education Initiative (GFEI), rather than using mandatory Section 416(b) donation authority under the Commodity Credit Corporation. GFEI received \$112 million in 2002 for a pilot program, and the Administration estimates a \$100 million program level in 2003.

million for APHIS, which is \$234 million (22.3 percent) below the Administration's estimated 2003 program level. The budget also includes new user fees for animal welfare inspections (raising \$8 million in 2004).

- ***Agricultural Research and Services*** — The budget provides \$3.7 billion for agriculture research and services, \$415 million (10.0 percent) less than the amount needed to maintain purchasing power at the 2002 level. Agencies that receive funding in this category include: the Animal and Plant Health Inspection Service; the Foreign Agriculture Service; the Agricultural Marketing Service; the National Agricultural Statistics Service; the Economic Research Service; and the Cooperative State Research, Education, and Extension Service.
- ***Grain Inspection, Packers and Stockyards Administration (GIPSA)*** — Like last year, the budget includes two user fee proposals for the Grain Inspection, Packers and Stockyards Administration (GIPSA). Fees are assessed on those who receive, ship, store, or process grain (raising \$5 million in 2004) to cover the costs of developing, reviewing, and maintaining official U.S. grain standards used by the grain industry. New license fees are also assessed on packers, live poultry dealers, poultry processors, stockyard owners, market agencies, dealers, and swine contractors (raising \$24 million in 2004) to fund the Packers and Stockyards program.
- ***Initiative for Future Agricultural Food Systems*** — The 2002 Farm Bill reauthorized the Initiative for Future Agriculture and Food Systems through 2011, providing \$120 million for the program for 2004. The funding for this program has been blocked by the Appropriations Committee for three of the past four years. The 2004 budget continues the practice of blocking this funding, saving \$120 million.

## Function 370: Commerce and Housing Credit

Function 370 includes deposit insurance and financial regulatory agencies such as the Securities and Exchange Commission (SEC); the mortgage credit programs of the Department of Housing and Urban Development (HUD); the Department of Commerce's Census Bureau, its business promotion programs, and its technology development programs; rural housing loans; the Small Business Administration's business loans; the Postal Service (USPS); and other regulatory agencies such as the Federal Communications Commission (FCC).

### Appropriated Programs

Under the President's budget, appropriated funding for Function 370 for 2004 is negative \$979 million, a decrease of \$1.6 billion from the 2002 enacted level of \$628 million. Negative spending levels in this function are relatively commonplace because credit programs and the fee-funded programs in the function often receive more in collections than they spend. Significant programmatic differences between the 2004 budget and the 2002 enacted level include more funding for the Securities and Exchange Commission, changes in patent and trademark fees, no extension of funding provided to the Postal Service in 2002 to respond to the anthrax threat, and sharp reductions in certain Department of Commerce programs.

- ***Funding for Securities and Exchange Commission (SEC) increased by \$442 million*** — The budget increases funding for the SEC to \$842 million, nearly double the 2002 enacted level. This increase allows the SEC to increase its staff to handle expanded workload demands in areas such as investigating fraud, supervising securities markets, and regulating investment management.
- ***Patent and Trademark Office (PTO) Charges Higher Fees*** — The budget includes legislation to restructure fees charged for PTO products and services. In 2002, following an internal review, the PTO determined that it must use existing resources more effectively and increase its total resources in order to address growing backlogs and increase the quality of the office's work. The fee restructuring will raise fee collections in 2004 by \$201 million, or 15.4 percent, above the level that PTO would collect under current law.
- ***Funding Increase for Scientific and Technical Research and Services*** — The budget provides \$380 million for the scientific and technical research program of the National Institute for Standards and Technology. This funding level is \$29 million above the level needed to maintain purchasing power at the 2002 level.

- ***Budget Terminates the Advanced Technology Program*** — The budget ends the Advanced Technology Program, which provides assistance to U.S. businesses and joint ventures to improve their competitive position. The goal of the program is to accelerate the commercialization of technology that is risky to develop but promises significant national economic benefits. The budget reduces funding to \$27 million, \$164 million below the amount needed to maintain purchasing power at the 2002 level. The \$27 million is designated for administrative costs and close-out of the program.
- ***Budget Dramatically Cuts Federal Support of the Manufacturing Extension Partnership*** — The budget provides \$13 million for the Manufacturing Extension Partnership, a reduction of \$98 million, or 88.6 percent, below the amount needed to maintain purchasing power at the 2002 enacted level. The program provides information and consulting services to help businesses adopt advanced manufacturing technologies and business practices.

## **Mandatory Programs**

- ***Federal Deposit Insurance Programs Merged*** — The budget merges two insurance fund programs, the Bank Insurance Fund and the Savings Association Insurance Fund, which offer an identical product. The budget anticipates that merging these funds will reduce the need for insured financial institutions to increase their premium payments in the near term. This policy reduces collections by \$453 million in 2004 and \$1.4 billion through 2008.

## Function 400: Transportation

Function 400 is comprised mostly of the programs administered by the Department of Transportation (DOT), including programs for highways, mass transit, aviation, and maritime activities. This function also includes two components of the new Department of Homeland Security: the Coast Guard and the Transportation Security Administration (TSA). The function also includes several small transportation-related agencies and the research program for civilian aviation at the National Aeronautics and Space Administration.

### Budget Summary

For 2004, the President's budget provides \$61.9 billion in appropriated budgetary resources (budget authority plus obligation limitations).<sup>8</sup> This funding level is \$5.6 billion (8.3 percent) lower than the level required to maintain purchasing power at the 2002 level. The President's 2004 transportation budget is \$2.8 billion (4.4 percent) below the 2002 enacted level.

This overall decrease for 2004 relative to the 2002 enacted level reflects a cut of \$2.5 billion in federal aid for highways, a cut to the TSA budget (reportedly because its start-up costs have declined), combined with a large increase for the Coast Guard and modest increases in other areas.

### Budget Details

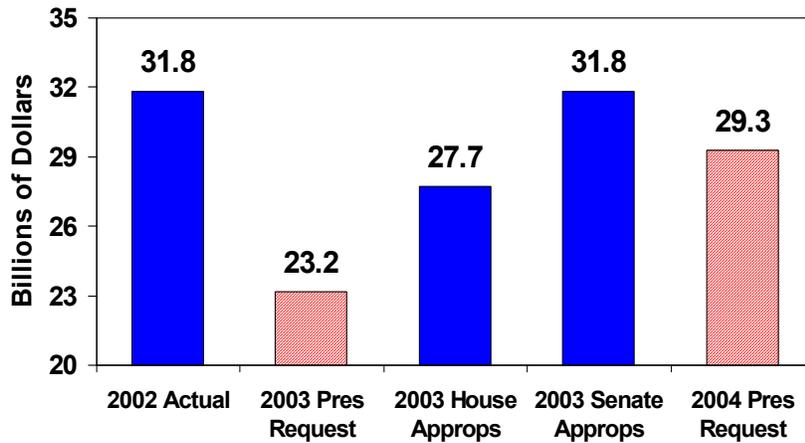
- **Highway Funding Cut** — The President's budget provides 2004 federal-aid highway funding of \$29.3 billion, a cut of \$2.5 billion (7.8 percent) from the 2002 enacted level of \$31.8 billion. This \$2.5 billion cut for 2004 follows the highly controversial \$8.6 billion cut the President proposed last year. Congress rejected the President's proposal for 2003 and will almost certainly undo at least half of that cut in the pending omnibus appropriations bill. Cuts to federal highway aid will only exacerbate the already severe fiscal difficulties that states are facing.

In March, the President is expected to release a more detailed proposal for the reauthorization of surface transportation programs, which expire this year. This proposal will apparently seek to ameliorate the recent wide swings in highway spending called for by the formulas in current law.

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<sup>8</sup> Some DOT programs are funded with traditional appropriations. However, highway programs, most mass transit programs, and the Federal Aviation Administration's airport improvement grants are usually funded with mandatory contract authority. The Appropriations Committees constrain the use of this mandatory contract authority by setting obligation limitations. Outlays resulting from the obligation limitations are counted as discretionary outlays.

## Federal-Aid Highways Funding



- ***Additional Receipts for Highway Trust Fund*** — The President’s budget deposits an additional 2.5 cents per gallon of the excise tax on gasohol (ethanol-based gasoline) into the Highway Trust Fund. Under current law, that 2.5 cents per gallon is deposited into the General Fund. In contrast, all of the excise tax on gasoline (18.3 cents per gallon) is deposited into the Highway Trust Fund.<sup>9</sup>

Last year, Congress considered several proposals to significantly boost the use of gasohol. Because of the lower rate of taxation for gasohol, these proposals raised concerns that receipts deposited into the Highway Trust Fund would be adversely affected. Lower receipts would then translate into less federal aid for highway construction and maintenance. The President’s proposal is one way to address those concerns. The Administration estimates that this change, which takes effect in September 2003, will increase trust fund receipts by over \$600 million per year.

- ***Amtrak*** — For 2004, the budget provides \$900 million in grant funding for Amtrak. Of this amount, \$671 million is for operating costs and \$229 is for maintenance and capital improvements. The budget states that in the upcoming reauthorization of intercity passenger rail, the Administration will attempt to require increased state financial support for Amtrak’s long-distance routes.

Congress has still not determined the final 2003 funding level for grants to Amtrak. Amtrak’s president has said that the rail service needs \$1.2 billion in federal support for

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<sup>9</sup> For both types of fuel, an additional 0.1 cent per gallon of excise tax is deposited in the Leaking Underground Storage Tank Trust Fund.

2003 to keep operating. The Senate provided this amount in the 2003 omnibus appropriations bill it passed, but the House 2003 Transportation Appropriations bill included only \$762 million (see table below).

**Federal Grants to Amtrak**  
(budget authority in millions of dollars)

	2002	2003	2004
President's Request	521	521	900
Enacted	826*	--	--
2003 Senate Appropriations	--	1,200	--
2003 House Appropriations	--	762	--

\* includes \$305 million in supplemental appropriations.

- **Transportation Security Agency (TSA)** — The budget includes \$4.8 billion for TSA, now part of the Department of Homeland Security. This amount is \$526 million less than the amount requested for 2003, the first full year of funding for the new agency. The Administration states that the 2003 total included one-time startup and roll-out costs for the agency of \$685 million that are not needed for 2004. After subtracting these one-time costs, the Administration claims an increase of \$160 million over the 2003 request. The budget includes: \$4.3 billion for direct aviation security activities; \$85 million for TSA's land security activities; \$55 million for checking the credentials of transportation workers; and \$65 million for research and development.
  
- **Coast Guard** — The President's budget provides \$6.8 billion for the Coast Guard, now part of the Department of Homeland Security. Of this amount, \$5.6 billion is appropriated funding and \$1.2 billion is for mandatory spending, which consists mostly of retirement pay. The 2004 budget provides appropriated funding that is \$750 million (15.4 percent) higher than the level required to maintain purchasing power at the 2002 level and \$1.0 billion (21.8 percent) higher than the 2002 enacted level of appropriations. The 2004 appropriations level is \$485 million (9.4 percent) higher than the President's 2003 request. This dramatic increase in funding is attributable to the Coast Guard's expanded role in homeland security. At the same time, over 50 percent of the Coast Guard's budget is still devoted to non-homeland security activities (see table below).

- ***No Specific Funding for Port Security Grants*** — The budget does not request specific funds for grants to port authorities for security upgrades. These grants were authorized as part of the port and maritime security legislation passed by the Congress and signed into law in November 2002.

**Coast Guard Appropriations, President's 2004 Budget**  
(budget authority in millions of dollars)

	<b>Homeland</b>	<b>Non-Homeland</b>	<b>Total</b>
Operating Expenses, DOD Portion	340	--	340
Operating Expenses	1,763	2,693	4,456
Capital Acquisitions	440	333	773
Other	--	55	55
<b>Total</b>	<b>2,543 (45%)</b>	<b>3,081 (55%)</b>	<b>5,624</b>

*Source: OMB, Department of Homeland Security 2004 Budget in Brief*

- ***Maritime Administration*** — Like the last two years, the President's budget eliminates funding for new loan guarantees under the Maritime Guaranteed Loan (Title XI) Program. This program guarantees loans for purchases from the U.S. shipbuilding industry and for shipyard modernization. For 2002, Congress ignored the President's request and provided \$37 million for the program. For 2004, the President's budget provides \$4.5 million, enough to cover only the cost of administering pre-existing loan guarantees.

## Function 450: Community and Regional Development

Federal support for community and regional development helps promote growth in economically distressed urban and rural communities and provide assistance to states and localities in times of crisis. Major agencies and programs included in this function are the Empowerment Zones, Community Development Block Grants, the Economic Development Administration, the Appalachian Regional Commission, rural development programs in the Department of Agriculture, the Bureau of Indian Affairs, and the Small Business Administration's disaster loan program. The President's budget also includes in the function the Homeland Security Department's Emergency Preparedness and Response initiative, which combines operations previously performed under the Federal Emergency and Management Agency with the Administration's Office of Domestic Preparedness.

The President's budget includes \$13.9 billion for the Community and Regional Development function for 2004, a \$10.0 billion decrease below the level needed to maintain purchasing power at the 2002 level. The 2002 level included approximately \$11.8 billion in supplemental disaster relief. Absent the supplementals, the budget includes a \$1.8 billion increase over the 2002 level. This increase represents the cost of funding the Office of Domestic Preparedness under the Department of Homeland Security. The budget, however, significantly cuts other programs in this function. Following is an overview of the President's treatment of several programs in the budget.

- ***Emergency Preparedness and Response*** — The President's Emergency Preparedness and Response Department funds state and local emergency assistance by merging relief and insurance operations previously funded under the Federal Emergency and Management Agency (FEMA) with the Administration's Office of Domestic Preparedness initiative. The President's budget provides \$6.2 billion for the department, a \$3.0 billion increase over the level needed to maintain purchasing power at the 2002 FEMA level, excluding the supplemental disaster relief provided for FEMA for that year.<sup>10</sup> The increase goes toward creating the Office of Domestic of Preparedness, which is funded at \$3.1 billion to train "first responders" to emergencies and provide terrorism-related equipment. The budget funds this initiative through cuts to state and local criminal justice assistance under Function 750 (Administration of Justice).
- ***Community Development Block Grant (CDBG) Program Cut*** — Community Development Block Grants provide funds for programs and activities that promote economic development in low- and moderate-income communities. The President's

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<sup>10</sup>Including 2002 supplemental disaster relief, the budget cuts disaster relief by \$5.6 billion below the amount needed to maintain purchasing power at the 2002 level.

budget provides \$4.7 billion for CDBGs, a \$438 million (9.3 percent) cut below the level needed to maintain purchasing power at the 2002 level, excluding the supplemental disaster relief provided for CDBG programs for that year.<sup>11</sup>

- ***Community Development Financial Institutions (CDFI) Fund Cut*** — The CDFI program provides grants, loans, and other assistance to promote investment in economically distressed areas. The budget provides \$51 million for CDFI, a \$31 million (37.8 percent) cut below the level needed to maintain purchasing power at the 2002 level.
- ***Economic Development Administration Increase*** — Economic Development Assistance programs provide grants and other assistance to help alleviate unemployment and underemployment in economically distressed regions. The budget provides \$364 million for Economic Development Assistance programs, an \$18 million (5.0 percent) increase over the level needed to maintain purchasing power at the 2002 level.
- ***Appalachian Regional Commission Cut*** — The Appalachian Regional Commission aids economic development in the Appalachian region. The budget provides \$33 million for the Appalachian Regional Commission, a \$41 million (55.4 percent) cut below the level needed to maintain purchasing power at the 2002 level.
- ***Rural Community Advancement Cut*** — The Rural Community Advancement (RCA) program provides grants, loans, and loan guarantees to stimulate economic growth and build facilities in rural communities. The budget provides \$478 million for the Rural Community Advancement program, a \$356 million (42.7 percent) cut below the level needed to maintain purchasing power at the 2002 level.
- ***Empowerment Zones Eliminated*** — Empowerment Zones target funds to revitalize economically distressed urban and rural communities and attract private investment in those communities. The budget eliminates urban and rural empowerment zones. To maintain purchasing power at the 2002 level, urban empowerment zones would require \$47 million and rural empowerment zones would require \$16 million.
- ***Brownfields Redevelopment Program Eliminated*** — The Brownfields Redevelopment Program provides competitive economic development grants under the Department of Housing and Urban Development for brownfield projects. The budget eliminates funding for the program, which would require \$26 million to be funded at the 2002 level.

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<sup>11</sup>Including 2002 supplemental disaster relief, the budget cuts CDBG's by \$3.3 billion (41.2 percent) below the amount needed to maintain purchasing power at the 2002 level.

## Function 500: Education, Training, Employment, and Social Services

Function 500 includes funding for the Department of Education, social services programs within the Department of Health and Human Services, and employment and training programs within the Department of Labor. It also contains funding for the Library of Congress and independent research and art agencies such as the Corporation for Public Broadcasting, the Smithsonian Institution, the National Gallery of Art, the John F. Kennedy Center for the Performing Arts, the National Endowment for the Arts, and the National Endowment for the Humanities.

The President's budget for 2004 provides \$75.2 billion in discretionary funding for programs in this function, \$1.3 billion above the amount needed to maintain purchasing power for these programs at the 2002 level. However, this increase in purchasing power is misleading: it masks the severe decreases in certain programs, such as job training and after-school programs, that are offset by increases in a few high-profile programs, such as special education and Title I.

### Education

The budget provides \$53.1 billion in appropriations for the Department of Education, which is an increase of \$1.7 billion (3.4 percent) above the amount needed to maintain purchasing power at the 2002 level. However, \$1.9 billion of the total is dedicated towards filling the shortfall in Pell Grant funding from prior years, and thus provides no new education aid for 2004. Discounting this \$1.9 billion, the 2004 budget does not provide a meaningful increase for 2004 education programs compared with the amount needed to maintain purchasing power at the 2002 level.

The 2004 budget continues the theme in the President's previous budget by eliminating 47 education programs, freezing most other programs at the 2003 CR level, and increasing funding for just a few. At the same time, it diverts federal funding from public schools and into private schools through a new tax credit to offset the cost of some students attending private schools; this proposal costs \$226 million in 2004 and \$3.3 billion over five years (2004-2008).

- ***Cuts Funding for No Child Left Behind Act*** — Despite an increase for Title I, the President's budget provides only \$22.6 billion to fund programs under the No Child Left Behind Act (NCLB), more than \$9 billion below the amount authorized for 2004 and \$199 million below the amount needed to maintain purchasing power at the 2002 level. These programs receive \$22.2 billion under the 2003 continuing resolution (CR).
- ***Major Education Program Cuts*** — The budget cuts many programs below the amount required to maintain purchasing power at the 2002 level, including the following:
  - ***21<sup>st</sup> Century Community Learning Centers*** after-school program receives \$600 million, down \$430 million (41.8 percent). This is \$1.2 billion below the level Congress authorized for 2004 in NCLB;

- **Teacher Quality Programs** receive \$3.1 billion, down \$173 million (5.2 percent);
  - **Education Technology** receives \$722 million, down \$77 million (9.6 percent);
  - **Impact Aid** receives \$1.0 billion, down \$168 million (14.2 percent). This is even \$125 million below the President's 2003 request;
  - **Vocational Education** receives \$1.0 billion for 2004, down \$351 million (26.0 percent). This is \$300 million below the President's 2003 request;
  - **Fund for the Improvement of Education** receives \$35 million for 2004, down \$361 million (91.2 percent); and
  - **Perkins Loans** receives \$68 million, down \$106 million (61.0 percent).
- **Eliminates 47 Education Programs** — The President's 2004 budget eliminates 47 programs that receive a total of \$1.6 billion under the CR (the complete list is on the next page). The eight new programs on this list, funded at a total of \$594 million under the CR, are the following: Comprehensive School Reform (\$235 million under the CR); Tech-Prep education state grants (\$108 million); capital contributions to Perkins loans (\$100 million); Regional Educational Laboratories (\$67.5 million); Assistive Technology (\$60.9 million); vocational education national programs (\$12 million); adult education national leadership activities (\$9.5 million); and loan forgiveness for child care providers (\$1 million).

#### **Special Education**

The budget provides \$9.5 billion for the Individuals with Disabilities Education Act (IDEA) Part B grants to states, an increase of \$1.8 billion over the amount needed to maintain purchasing power at the 2002 level. This funding puts the federal contribution at only 19 percent of the national average per pupil expenditure, still less than half the 40 percent "full funding" federal contribution ceiling authorized by IDEA.

- **Increases Only Eight Elementary and Secondary Programs** — The budget increases funding above the amount needed to maintain purchasing power at the 2002 level for only the following eight elementary and secondary education programs:
  - **Title I** receives \$12.4 billion (up \$1.8 billion, or 16.6 percent, above the amount needed to maintain services at the 2002 level);
  - **Reading First** receives \$1.2 billion (up \$142 million, or 14.1 percent);
  - **Charter Schools** receive \$320 million (up \$114 million, or 55.3 percent);
  - **Safe and Drug-Free Schools** receives \$694 million (up \$2 million, or 0.3 percent);
  - **School Choice** programs receive \$100 million (up \$74 million, or 288.2 percent);
  - **Literacy through Libraries** receives \$27.5 million (up \$15 million, or 112.8 percent);
  - **Physical Education**, which replaces a \$50 million program, receives \$10 million; and
  - **Evaluation** receives \$9.5 million (up \$300,000, or 3.2 percent).

## 47 Education Programs Eliminated in the President's 2004 Budget

(Dollars in Millions under the 2003 Continuing Resolution)

<i>Program</i>	<i>CR \$</i>		<i>Program</i>	<i>CR \$</i>
Improving Teacher Quality:			Vocational Education:	
Preparing Tomorrow's Teachers	62.5		Tech-Prep Ed. Grants	108.0
National Writing Project	14.0		Vocational Ed. Natl. Programs	12.0
School Leadership	10.0		Occupational & Employment Info	9.5
Advanced Credentialing	10.0		Tech-Prep Demonstration	5.0
Education Technology:			Adult Education:	
Community Technology Centers	32.5		Grants for Incarcerated Youth	17.0
Comprehensive Regional Ast. Ctrs.	28.0		Offenders	
Star Schools	27.5		Adult Education Natl. Leadership	9.5
Ready To Teach	12.0		Literacy Programs for Prisoners	5.0
Regional Technology in Ed.	10.0			
Comprehensive School Reform	235.0		Smaller Learning Communities	142.2
Higher Education:			Rehabilitation Services:	
Perkins Loans Capital Contribution	100.0		Assistive Technology	60.9
Leveraging Ed. Assist.	67.0		Supported Employment Grants	38.2
Partnerships	7.0		Projects With Industry	22.1
Demos for students w/ disabilities	4.0		Access to Telework Fund	20.0
Thurgood Marshall Legal Ed.	2.0		Recreational Programs	2.6
Underground Railroad Program	1.0		Migrant & Seasonal Farmworkers	2.4
B.J. Stupak Olympic Scholarships				
Rural Education	162.5		Javits Gifted & Talented Education	11.2
Regional Education Laboratories	67.5		Physical Education Program	50.0
Elementary/Secondary Counseling	32.5		Foreign Language Assistance	14.0
Eisenhower Math/Science Consortia	15.0		Exchanges with Historic Whaling	5.0
Eisenhower National Clearinghouse	5.0		and Trading Partners	
Parental Assistance Info. Centers	40.0		Dropout Prevention	10.0
Arts in Education	30.0		Women's Educational Equity	3.0
Alcohol Abuse Reduction	25.0		Close-Up Fellowships	1.5
Grants for Community Service for	50.0		Loan Forgiveness for Child Care	1.0
Expelled or Suspended Students			Providers	
<b>Total Programs Eliminated = \$1.6 billion (2002 Funding= 2003 CR Level)</b>				

- ***Education Tax Credits*** — The budget reprises last year’s proposed tax credit to offset the cost of attending a private or public school for students in failing public schools. This tax credit costs \$226 million in forgone taxes and new government spending in 2004, and \$3.3 billion over five years (2004-2008). The budget contains another proposed tax credit beginning in 2004 to allow teachers to deduct certain out-of-pocket classroom expenses, costing \$23 million in 2004 and \$1.0 billion over 2004-2008. The budget also expands the current tax credit for teachers who work for five years in high-poverty schools to allow qualifying science, math, and special education teachers to have up to \$17,500 of their student loans forgiven. This expansion costs \$178 million in 2004, and \$384 million over five years. Because tax credits are not appropriated funding, these costs do not appear in the total of appropriations for Function 500.

## **Postsecondary Education**

- ***No Increase in Maximum Pell Grant*** — The budget freezes the maximum Pell Grant award at \$4,000 — the second straight year that the President has proposed no increase. In each of the five years prior to 2003, Congress raised the maximum grant by totals ranging from \$125 to \$450. The budget provides \$549 million less than Pell Grants need; last year the Administration chided Congress for not appropriating enough to cover the bills, but this year its own budget admits that the program will run a deficit for 2004.
- ***Cuts Campus-Based Financial Assistance*** — The 2004 budget reduces campus-based aid below the amount required to maintain purchasing power at the 2002 levels. It cuts Perkins loans to \$68 million, which is \$106 million below the amount needed to maintain purchasing power at the 2002 level, and freezes Supplemental Educational Opportunity grants and work study at their CR levels of \$725 million and \$1.0 billion respectively, which is a cut of 3.3 percent below the amount needed to maintain purchasing power.
- ***Slashes Direct Aid to Students*** — The budget eliminates four student aid programs that receive a total of \$73 million under the CR, reduces the program that provides child care for student-parents to \$15 million (34.1 percent below the amount needed to maintain purchasing power at the 2002 level), and freezes all other assistance for students at the CR level, including funding for GEAR-UP (\$10 million below the amount needed to maintain purchasing power) and TRIO (\$27 million below the amount needed to maintain purchasing power at the 2002 level).
- ***Aid to Higher Education Institutions*** — The budget increases aid for institutional development by \$12 million (3.2 percent) above the amount needed to maintain purchasing power at the 2002 level. This includes aid for Historically Black Colleges and Universities (at \$224 million) and Graduate Institutions (at \$53 million), tribally controlled colleges and universities (at \$19 million), and Alaska Native and Native

Hawaiian-serving Institutions (at \$4 million, down 39.8 percent below the amount needed to maintain purchasing power at the 2002 level). The budget also increases funding for Hispanic-serving Institutions to \$94 million.

## Employment and Training

As the country struggles out of an economic recession, the budget cuts appropriations for training and employment programs to \$5.7 billion, a cut of \$713 million (11.0 percent) below the amount needed to maintain purchasing power at the 2002 level.

- ***Cuts Adult Training*** — The budget includes \$3.1 billion for a new block grant that combines three programs (adult training, dislocated workers, and the Employment Service state grants), a cut of \$122 million below the amount needed to maintain purchasing power at the 2002 level.
- ***Cuts Youth Training Activities*** — The budget cuts funding for youth activities to \$1.0 billion, which is \$165 million (14.2 percent) below the amount required to maintain the 2002 purchasing power level. It eliminates Youth Opportunity Grants as well as several other youth programs.
- ***Re-employment Accounts*** — The budget includes a new two-year entitlement program to provide certain unemployed individuals with up to \$3,000 to purchase training or services they need to find a job. This costs \$1.6 billion in 2003 and \$2.0 billion in 2004.

## Social Services

The budget provides \$11.5 billion for social services programs for 2004, an increase of only \$209 million (1.9 percent) above the amount needed to maintain purchasing power at the 2002 level. Virtually all of this increase is for national service while other programs are kept at or below the amount needed to maintain services at the 2002 level.

- ***Head Start*** — The budget includes \$6.8 billion for Head Start, only \$75 million (1.1 percent) above the amount needed to maintain purchasing power at the 2002 level. The Administration asserts that this slight increase, coupled with changes it proposes for Head Start's reauthorization, will allow Head Start to offer services to 10,500 more children. The Administration's budget numbers show Head Start funding transferring from the Department of Health and Human Services to the Department of Education in 2005.
- ***No Increase for Social Services Block Grant (Title XX)*** — The budget keeps funding for the Social Services Block Grant at \$1.7 billion, frozen at the 2002 enacted level. This

grant provides states with broad discretion to use these funds for social services such as child care, child welfare, home-based services, employment services, adult protective services, prevention and intervention programs, and special services for the disabled.

- ***Increases National Service*** — The budget includes \$962 million for the Corporation for National and Community Service (CNCS), an increase of \$199 million (26.1 percent) above the amount needed to maintain purchasing power at the 2002 level. This total includes \$313 million to enroll 75,000 volunteers in AmeriCorps, and \$212 million for Senior Corps.

## **Cultural Agencies**

- ***National Endowments*** — The budget provides \$3 million less than the \$120 million needed to maintain purchasing power at the 2002 level for the National Endowment for the Arts. It increases funding for the National Endowment for the Humanities by \$22 million (16.9 percent) over that level, providing \$152 million in part to expand the We the People initiative to promote the study of U.S. history, institutions, and culture.
- ***Cuts Smithsonian Construction and Repair*** — The budget provides \$567 million to operate the Smithsonian Institution. Of that, repair and construction costs receive \$90 million, which is \$11 million (10.9 percent) below the level needed to maintain purchasing power at the 2002 level. The budget quotes a 2001 study that estimated the Smithsonian needs \$1.5 billion for repairs over the next 10 years to return its buildings to a state of good repair. However, the President’s budget provides only \$468 million for that purpose over the next five years, far below the pace to meet the goal.
- ***Corporation for Public Broadcasting*** — By custom, the Corporation for Public Broadcasting receives an appropriation two years in advance. Congress in 2002 enacted \$380 million in appropriations for 2004. The President’s 2004 budget ends the practice of such “advance appropriations” and does not include new funding for 2006.

## Function 550: Health

In Function 550 (Health), appropriated programs include most direct health care services programs. Other health programs in the function fund anti-bioterrorism activities and national biomedical research, protect the health of the general population and workers in their places of employment, provide health services for under-served populations, and promote training for the health care workforce. For 2004, funding for the National Institutes of Health (NIH) represents over half (55.9 percent) of all discretionary funding. The major mandatory programs in this function are Medicaid, the State Children's Health Insurance Program (SCHIP), and Tricare-for-Life (health care for Medicare-eligible military retirees).

### Overview

- **Overall Appropriated Increase** — The President's budget provides \$49.6 billion for appropriated programs in Function 550 (Health) for 2004, an increase of \$2 billion (4.2 percent) over the amount needed to maintain purchasing power at the 2002 level. However, the size of this increase is misleading because the projected baseline spending does not capture the anticipated NIH increase of \$4.1 billion for 2003. A better comparison is to look at the President's budgets for 2003 and 2004. The 2004 budget amount of \$49.6 billion provides a \$1.1 billion (2.2 percent) increase above the President's budget for 2003.
- **Overall Mandatory Increase** — Over five years (2004-2008), the budget increases mandatory spending by \$43.8 billion relative to current law. This increase is due to payments for the refundable portion of a new health insurance tax credit, funding for emergency preparedness and response at the Department of Homeland Security, and increased funding in the first five years (2004-2008) for Medicaid and SCHIP.
- **Radical Restructuring of Medicaid and SCHIP** — The President's budget attempts to abdicate responsibility for health care coverage for the low-income by block-granting the Medicaid and SCHIP programs at state option. This radical change in the programs' structure may lead to benefit and eligibility cuts, and will tie states' hands down the road by capping funding levels.

## Medicaid and SCHIP

- ***Lowers Overall Spending for Medicaid and SCHIP***

— The Administration includes a number of policies for Medicaid and SCHIP, some that spend money and others that save money, but overall funding is cut by \$3.2 billion over ten years.

### Medicaid and SCHIP Proposals

(Outlays in Millions of Dollars)

	5-Yr Total	10-Yr
Medicaid and SCHIP Block Grant	8,944	-66
Disability Initiatives	993	1,338
Medicaid Rebate Reform	-2,409	-6,421
Other Medicaid/SCHIP Proposals	2,257	2,687
Medicaid Effects of SSI/CSE Proposals	-123	-700
<b>Total Medicaid and SCHIP Proposals</b>	<b>9,662</b>	<b>-3,162</b>

- ***Attempts to Dismantle Medicaid's Guarantee of Health Care for Low-Income Individuals***

— The budget provides \$3.3 billion in 2004, and \$12.8 billion over seven years, for states willing to block-grant their Medicaid programs. However, these funds actually represent a loan since states would have to pay back all that money over three years, from 2011 to 2013. States that accept this option could cut benefits for certain Medicaid populations. States may also have to cut benefits further in order to pay back the money, and even deeper cuts would come if block grants do not keep pace with enrollment and inflation increases.

#### How Much Does It Cost, Really?

The budget presentation of Medicaid and SCHIP policies is somewhat misleading. The budget shows the cost of each policy in a block grant world where half the states agree to block grant their programs. However, the cost of these policies differs if the block grant proposal is not enacted, or if the number of participating states varies from the Administration's assumption.

The table below compares spending over ten years (2004-2013) for the Administration's Medicaid and SCHIP policies with and without block grants.

#### Medicaid/SCHIP Policies With and Without Block Grants (Outlays in millions)

	10-Year Total with block grant	10-Year Total without block grant
Block Grant	-66	Not applicable
Disability	1,338	2,766
Medicaid Rebate Reform	-6,421	-13,200
Other Proposals	2,687	5,510
SSI/CSE Effects	-700	-1,437
<b>Total Costs</b>	<b>3,162</b>	<b>-6,361</b>

- ***Creates Options for People with Disabilities***— The budget includes \$1.3 billion over ten years to promote work incentives and home and community-based care options for people with disabilities.
- ***Extends Transitional Medicaid Assistance and SCHIP Funds***— A series of other policies increase spending by \$2.7 billion over ten years that include reforming and extending Transitional Medicaid Assistance for five years, and extending for one year any SCHIP funds scheduled to expire on October 1, 2003. The budget does not reinstate \$1.2 billion in SCHIP funds that expired on October 1, 2002.
- ***Rebasing Prescription Drugs Lowers Costs*** — The budget decreases Medicaid spending by \$6.4 billion over ten years relative to current law by revising the base formula used to calculate the Medicaid drug rebate.
- ***Interactions with Supplemental Security Income and Child Support Enforcement*** — The budget includes proposals for Supplemental Security Income (SSI) and Child Support Enforcement (CSE), both of which affect Medicaid spending. For further discussion of these proposals, see *Function 600 (Income Security)*.

### **Health Care for Military Retirees**

- ***Tricare-for-Life***—The budget projects current law spending of \$26.8 billion over five years (2004-2008) for military-retiree health care benefits.

### **Health Programs Subject to Annual Appropriations**

- ***Anti-Bioterrorism*** — For the fight against bioterrorism, the budget includes 2004 funding of \$3.6 billion at HHS, \$1.0 billion at the Department of Homeland Security, and other, smaller amounts at other agencies.
  - ***HHS Anti-Bioterrorism Funding*** of \$3.6 billion is a decrease of \$233 million from the President’s request for 2003. The decrease is due to one-time costs in 2003 for building security and the shift of anthrax vaccine procurement funding to the Department of Homeland Security. The Public Health and Social Services Emergency Fund (PHSSEF) receives \$1.8 billion of the HHS anti-bioterrorism budget in 2004. The PHSSEF funds state and local preparedness and federal medical and public health response at the Centers for Disease Control and Prevention (CDC), Health Resources and Services Administration (HRSA), and Substance Abuse and Mental Health Services Administration (SAMSHA). The rest of the HHS anti-bioterrorism funding goes to the Food and Drug Administration for food safety and to the National Institutes of Health for research, and also includes \$100 million in new funds to develop influenza vaccine production capacity.

- ***Department of Homeland Security Anti-Bioterrorism Funding*** of \$1.0 billion contains \$400 million for the Strategic National Pharmaceutical Stockpile and a proposal for mandatory spending to purchase biodefense countermeasures, such as smallpox and anthrax vaccines. For 2004, this proposal spends \$575 million (the 2004 budget authority for this proposal is \$890 million). For a broader discussion of homeland security funding, see *Homeland Security*.
- ***National Institutes of Health (NIH)*** — For 2004, the budget provides an NIH program level of \$27.9 billion. If Congress provides a program level of \$27.3 billion for 2003, as expected, then this is a \$550 million increase (2.0 percent). The Administration asserts that the exclusion of one-time costs in 2003 results in an actual increase of 7.5 percent for research funding, but this logic is flawed. The Administration *includes* \$1.4 billion in one-time construction and anthrax procurement costs in their 2003 total in order to claim doubling of NIH, but then immediately turns around and *excludes* that \$1.4 billion from the 2003 total in order to claim a 2004 research funding increase of 7.5 percent. In effect, the Administration takes credit for the money twice.
- ***Childhood Immunizations*** — The budget provides \$1.7 billion for 2004 for vaccines for children. Within this amount, the budget shifts \$110 million from CDC to the Medicaid Vaccines for Children program (VFC), providing a total of \$511 million in funds appropriated to CDC and \$1.1 billion for VFC. In addition to funding existing activities, this amount provides for three new Administration initiatives: 1) expanding the number of clinics that provide vaccines to under-insured children (those whose private insurance does not cover vaccinations); 2) building up a national stockpile of childhood vaccines; and 3) restoring tetanus and diphtheria vaccines to the VFC program.
- ***Substance Abuse and Mental Health Services Administration (SAMHSA)*** — The budget funds SAMHSA at \$3.4 billion for 2004, an increase of \$145 million (4.5 percent) above the amount needed to maintain purchasing power at the 2002 level. The Administration creates a new, \$200 million drug treatment voucher program, but the increase is partially offset by cuts to mental health and substance abuse prevention activities.
  - ***Substance Treatment Activities*** receive \$2.3 billion, an increase of \$255 million (12.2 percent) above the amount needed to maintain purchasing power at the 2002 level. New vouchers for treatment activities could be used at a range of providers, including those that are faith-based.
  - ***Substance Abuse Prevention Activities*** are funded at \$148 million, a cut of \$57 million (27.8 percent) below the amount needed to maintain purchasing power at the 2002 level.
  - ***Mental Health Activities*** receive \$834 million, \$27 million below the amount needed to maintain purchasing power at the 2002 level.

- ***Centers for Disease Control and Prevention (CDC)*** — The budget includes \$4.2 billion for CDC, a cut of \$334 million (7.3 percent) below the amount needed to maintain purchasing power at the 2002 level. However, part of the cut is explained by the transfer of \$110 million from CDC to the Medicaid Vaccines for Children program. The CDC budget also includes \$100 million in new funds for a disease prevention initiative targeted at preventing diabetes, asthma, and obesity; and \$114 million for buildings and facilities, a cut of \$194 million (63 percent) from the amount needed to maintain purchasing power at the 2002 level.
- ***Food and Drug Administration (FDA)*** — The budget funds FDA at \$1.4 billion, a cut of \$47 million (3.2 percent) below the amount needed to maintain purchasing power at the 2002 level. In addition, FDA spending consists of \$307 million in user fees, including a new user fee of \$5 million for animal drug reviews. The FDA budget also includes \$13 million for reviewing and ensuring the safety of generic drugs.
- ***Freeze for Indian Health Service (IHS)*** — The budget funds IHS at a program level of \$3.6 billion for 2004, freezing the program at the level needed to maintain purchasing power at the 2002 level. The 2004 budget increases funding for diabetes prevention and sanitation construction, which means that all other IHS activities are below the level needed to maintain 2002 purchasing power.
- ***Increases Ryan White AIDS Programs*** — For 2004, the budget funds Ryan White AIDS programs at \$2.0 billion. This is an increase of \$31 million (1.6 percent) over the amount needed to maintain purchasing power at the 2002 level and a \$99 million increase (5.2 percent) over the 2002 enacted and 2003 request levels. HHS asserts that the additional funds will support the purchase of medications for over 9,000 additional persons living with HIV/AIDS.
- ***Cuts Title X Family Planning*** — The budget of \$265 million for Title X family planning programs is a cut of \$9 million (3.4 percent) below the amount needed to maintain purchasing power at the 2002 level.
- ***Freezes Maternal and Child Health (MCH) Block Grant*** — For 2004, the budget provides \$758 million for the Maternal and Child Block Grant and Traumatic Brain Injury Grant Programs, virtually equivalent to the amount needed to maintain purchasing power at the 2002 level.
- ***Cuts Healthy Start*** — The budget funds Healthy Start at \$99 million, a \$4 million (3.4 percent) cut from the amount needed to maintain purchasing power at the 2002 level. Healthy Start supports programs in high-risk communities to reduce low birth weight, inadequate prenatal care, and other factors contributing to infant mortality.

- ***Slashes Health Professions Training*** — Health Professions Training programs are funded at \$108 million in 2004, a \$293 million cut (73.1 percent) below the amount needed to maintain purchasing power at the 2002 level. Within the amount provided is \$27 million for Nursing Loan Repayment and Scholarship Programs, a nearly three-fold increase from the \$10 million provided for 2002.
- ***Eliminates Community Access Program (CAP)*** — The budget eliminates the community access program, which received \$105 million for 2002. CAP funds grants to coordinate health care services to the under-insured and uninsured offered by community providers such as public hospitals, community health centers, and disproportionate share hospitals.
- ***Eliminates State Planning Grants*** — The budget eliminates state planning grants, which received \$15 million in 2002. These grants are used by states to develop designs for providing access to health insurance coverage to all people in a state.
- ***Slashes Telehealth Activities*** — For 2004, the budget cuts telehealth activities 84.3 percent below the amount needed to maintain purchasing power at the 2002 level, providing funding of \$6 million.
- ***Slashes Rural Health Activities*** — The budget provides \$80 million for rural health activities, a \$52 million cut (39.2 percent) from the amount needed to maintain purchasing power at the 2002 level.
- ***Cuts Children's Hospital Graduate Medical Education (GME)*** — The budget funds pediatric GME at \$199 million, \$96 million (32.6 percent) below the amount needed to maintain purchasing power at the 2002 level. These funds are currently used by children's teaching hospitals to offset the higher costs of providing advanced training to pediatricians.
- ***National Health Service Corps (NHSC)*** — For 2004, the budget provides \$212 million for NHSC, a \$62 million increase (41.2 percent) above the amount needed to maintain purchasing power at the 2002 level. Through its scholarship and loan programs, the NHSC places physicians in medically under-served areas, which often have a high rate of uninsured persons. NHSC physicians are often the mainstay of the health care workforce for institutions, such as community health centers and disproportionate share and public hospitals, that serve the under-insured or uninsured.
- ***Boosts Funds for Community Health Centers*** — For 2004, the budget funds community health centers at \$1.6 billion, an increase of \$236 million (17.0 percent) above the amount needed to maintain purchasing power at the 2002 level. These centers serve low-income and uninsured people and often rely on the NHSC for physicians to provide care to their patients and work with the CAP providers to coordinate care for the uninsured.

The increase for Community Health Centers also includes \$45 million for the Health Centers Tort Claim Fund, a three-fold increase from the \$15 million provided for 2002.

- ***Food Safety and Inspection Service (FSIS)*** — For 2004, the budget provides FSIS with a program level of \$896 million, a 1.2 percent increase over the amount needed to maintain purchasing power at the 2002 level needed. This counts user fees of \$222 million, including \$122 million in new fees that will be charged to industry for federal inspection overtime costs. These new costs may very well be passed on to consumers.
- ***Occupational Safety and Health Administration (OSHA)*** — The budget funds OSHA at \$450 million, a \$19 million cut (4.1 percent) from the amount needed to maintain purchasing power at the 2002 level.
- ***Mine Safety and Health Administration (MSHA)*** — For 2004, the budget provides \$269 million, essentially a freeze at the amount needed to maintain purchasing power at the 2002 level.

## **Health Care Tax Credits**

- ***Tax Credits for the Uninsured*** — The budget creates a refundable income tax credit for health insurance costs for those who do not have public or employer-provided health plans. The credit provides a subsidy for a percentage of the health insurance premium, up to a maximum credit of \$1,000 per adult and \$500 per child (for up to two children). A two-parent family with two or more children would be eligible for a maximum credit of \$3,000. The maximum subsidy percentage is 90 percent for low-income taxpayers and phases down with income. The credit could also be used in state-sponsored private purchasing pools. While these types of tax credits appear to be an easy way to help people gain coverage, the individual market is not the answer for most uninsured people.

## Function 570: Medicare

Function 570 (Medicare) includes only the Medicare program. Appropriated funds are used to administer and monitor the Medicare program. Medicare benefits comprise almost all of the mandatory spending in this function.

### Appropriations

- ***Administration of Medicare*** — For 2004, the President's budget funds Medicare administrative activities at \$3.7 billion, a cut of \$166 million (4.3 percent) below the amount needed to maintain purchasing power at the 2002 level. Over five years (2004-2008), the budget provides \$19.5 billion for this purpose. This is \$1.7 billion below the level required to maintain purchasing power over the same period. The budget includes \$201 million in new user fees for duplicate claims processing and provider appeals filing.

### Medicare Trust Fund

- ***Denying the Surplus in the Medicare HI Trust Fund*** — The budget continues to deny that a Medicare HI Trust Fund surplus exists. Like last year, the budget explains Medicare financing in a manner that portrays the use of general revenues as a deficit instead of as a financing mechanism designed to facilitate a sound program. Although the budget ignores the Medicare Trust Fund for rhetorical purposes, the budget uses all of the 2004 HI surplus of \$27.1 billion to finance priorities such as additional tax cuts. See *Broken Promises on Social Security, Medicare, and Debt* for a broader discussion of the Medicare Trust Fund.

### Medicare Spending Trends

- ***Medicare Growing at 5 Percent Annually*** — The budget projects that Medicare net mandatory spending will be \$249 billion in 2004 under current law<sup>12</sup>. Over five years (2004-2013), total spending grows an average of 5 percent annually, with total spending for the five-year period projected as \$1.4 trillion.

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<sup>12</sup> Net mandatory spending reflects total spending on benefits, less the amount collected from beneficiaries in the form of premiums. This number excludes administrative costs.

## Medicare Reform and Prescription Drug Proposal

- ***Budget Includes \$400 Billion for Medicare*** — The budget increases Medicare net mandatory spending by \$6 billion in 2004 and \$400 billion over ten years (2004-2013), compared to projected spending under current law. This funding is for prescription drugs as well as a number of other changes to the Medicare program. The budget does not indicate how much of the total is explicitly for prescription drugs and the Administration fails to outline specifics of the planned Medicare reforms for the third year in a row.
- ***Prescription Drug Coverage is Inadequate*** — While it is unclear how much of the \$400 billion is for prescription drugs, even the total amount is insufficient to provide a meaningful prescription drug benefit. The House Republicans' prescription drug package was inadequate last year at \$350 billion; \$400 billion may not be enough to provide the same benefits this year. The budget offers vague promises instead of providing specifics on the type and amount of assistance seniors will receive.
- ***Plan Likely to Push Seniors Into Private Plans*** — The President's plan for Medicare reform relies heavily on the development of a market-based system in which private plans compete for beneficiaries. While one of the President's "principles" for Medicare reform promises that all current beneficiaries and those approaching retirement can keep their current Medicare benefit package, the budget documents fail to provide an explicit guarantee that seniors can get prescription drugs if they stay in the current system.
- ***Other Reforms Proposed*** — As part of the overall reform plan, the budget also includes changes to Medicare cost-sharing so that the Medicare benefit is more closely aligned with insurance packages offered in the private-sector. Such changes may include protection against high out-of-pocket costs in the form of catastrophic coverage and modifications to cost-sharing for preventive services in order to ensure that these costs faced by seniors are not hindering access to preventive services. Depending on how it is developed, a restructuring of cost-sharing can result in many seniors paying more out-of-pocket, and others paying less.
- ***Provider Payment Increases for Some, Cuts Possible for Others*** — The budget includes payment increases for physicians and Medicare managed care (Medicare+Choice). For physicians, the budget includes a change to the payment formula for actual data in the current and previous update systems. For Medicare+Choice, the Administration believes payments should be increased by linking plan payments to the cost of providing health care, including prescription drugs. For all other providers, the Administration points to sources (e.g., Medicare Payment Advisory Commission and the General Accounting Office) that say many providers are overpaid, and indicates a willingness to consider provider cuts in order to pay for the overall Medicare package.

## **Other Medicare Proposals**

- ***Payment Changes for Outpatient Drugs*** — While not a formal proposal, the budget signals the Administration’s intent to pursue legislation that modifies how Medicare pays for outpatient drugs currently covered by the program.

## **Function 600: Income Security**

Function 600 consists of a range of income security programs that provide cash or near-cash assistance (e.g., housing, food, and energy assistance) to low-income persons, and benefits to certain retirees, persons with disabilities, and the unemployed. Housing assistance programs account for the largest share of discretionary spending in this function. Major federal entitlement programs in this function include Unemployment Insurance, food stamps, Temporary Assistance to Needy Families (TANF), child care, and Supplemental Security Income (SSI).

The function also includes spending associated with the refundable portions of the Earned Income Tax Credit (EITC) and Child Credit. Federal and other retirement and disability programs, which make up approximately 30 percent of funds in this function, are discussed here and in *Function 950 (Undistributed Offsetting Receipts)*.

The President's budget includes proposals that represent a stark departure from the government's traditional commitment to funding programs at the levels of estimated need. Most dramatically, the budget gives states the option to convert Medicaid and the State Children's Health Insurance Program (SCHIP) – programs that provide health care for all eligible low-income disabled, elderly, children, and families – into block grants. See *Function 550 (Health)* for a discussion of Medicaid and SCHIP. The budget also converts the government's primary rental housing voucher program into a block grant to be administered by states. In addition, the budget includes a "flexible grant" option for foster care assistance.

In 2004, the President's budget provides \$273.7 billion for the mandatory programs in function 600, an increase of \$1.2 billion from projected spending under current law. Over five years, the budget increases spending relative to current-law projections by \$22.3 billion. This additional spending over five years includes the following: \$1.5 billion for welfare and related family support programs, \$2.4 billion for an initiative to devolve responsibility for unemployment insurance administration financing to the states, and \$18.5 billion to raise the child tax credit in 2003.

The budget provides \$46.2 billion in funding for 2004 for discretionary programs in function 600, a decrease of \$1.2 billion from the amount needed to maintain purchasing power at the 2002 level.

### **Welfare and Related Family Support Programs**

Most provisions of the landmark Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) were set to expire at the end of 2002. Congress did not enact a comprehensive reauthorization last year but extended the program through continuing resolutions in the interim. PRWORA replaced the former federal welfare entitlement program

with flexible Temporary Assistance for Needy Families (TANF) block grants, increased child care funding, improved child support collection, reduced the number of children eligible for the SSI program, reduced funding for the Title XX Social Services Block Grant (SSBG), and terminated most legal immigrants' access to means-tested mandatory benefits.

The Administration's reauthorization proposals for welfare-related programs freeze funding for some major activities but provide increases in other areas, as described below. The budget also extends for five years the Transitional Medicaid Assistance for families leaving welfare and simplifies the program. See *Function 550 (Health)* for information on Medicaid.

- ***Freezes Funding for Child Care*** — The budget once again freezes funding for the Child Care and Development Fund at the 2002 enacted level of \$4.8 billion, providing \$2.1 billion in appropriations for the Child Care and Development Block Grant, and \$2.7 billion for mandatory child care programs. The block grant funding represents a cut of \$71 million from the amount necessary to maintain purchasing power at the 2002 level. The budget freezes mandatory funding at the 2002 enacted level through 2008, further eroding purchasing power each year. The budget projects the number of children served by these programs will decline from 2.5 million in 2003 to 2.3 million in 2008.
- ***No Increase for Social Services Block Grant (Title XX)*** — The budget keeps funding for the Social Services Block Grant at \$1.7 billion, frozen at the 2002 enacted level. This grant provides states with broad discretion to use these funds for social services such as child care, child welfare, home-based services, employment services, adult protective services, prevention and intervention programs, and special services for the disabled.
- ***Changes Funding Structure for Foster Care and Adoption Assistance*** — The budget includes changes to the \$6.7 billion program to provide payments to states for foster care and adoption assistance. Funding for this entitlement program is traditionally based on estimates of numbers of eligible children and levels of assistance payments. The budget offers states the option of receiving these funds in the form of “flexible grants.” In exchange for agreeing to a fixed allocation of funding for five years, states are given considerably more administrative flexibility and discretion as to what activities can be funded. This plan increases spending in this program relative to current law by \$40 million over ten years. The budget also includes \$60 million for education and training vouchers for youths aging out of the foster care system.
- ***Freezes Most Welfare Funding*** — The budget freezes funding for most components of the Temporary Assistance for Needy Families (TANF), including the basic state family assistance grant program, at the 2003 estimated level of \$16.7 billion in budget authority and maintains this frozen funding level for the next five years. Other components of TANF receive an increase compared with projected spending under current law, totaling \$1.6 billion over five years. The increase is due in part to reinstatement of the supplemental grant program that was funded in 2002 but by law is excluded from

projections of current-law spending (\$319 million per year) and in part to the creation of grants to promote marriage and family formation (\$200 million per year).

These funding increases are partly offset by a redirection of \$500 million in 2004 from a program of bonuses for high performing states (for which current law provides \$1 billion lump sums in 2004 and 2009), and the elimination of bonuses to states for reducing out-of-wedlock births. The accompanying table breaks out the major components of TANF funding over the budget window. The House Republican welfare reauthorization bill, H.R. 4, mirrors the President’s policy of freezing most welfare funding.

<b>TANF Funding in the President’s Budget, in billions</b>					
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<i>Current law projections</i>					
Family assistance grants and other payments	16.7	16.7	16.7	16.7	16.7
High Performance Bonus	1.0	0	0	0	0
<i>Changes from current law</i>					
Supplemental Grants for Population Increases	0.3	0.3	0.3	0.3	0.3
Marriage Promotion and Family Formation Activities	0.2	0.2	0.2	0.2	0.2
Eliminate Illigitimacy Bonus	-0.1	-0.1	-0.1	-0.1	-0.1
Reduce High Performance Bonus	-0.5	0	0	0	0
<b>Total</b>	<b>17.6</b>	<b>17.1</b>	<b>17.1</b>	<b>17.1</b>	<b>17.1</b>

Current law also provides a \$2 billion contingency fund for states experiencing economic hardships. The budget includes modifications to make the contingency fund more accessible to states but projects that spending as a result of these modifications will increase by only \$50 million over five years compared with current law.

- ***Increases Child Support Collections and Gives More to Families*** — The budget includes a package of changes to increase child support collections and direct more of these payments to families without reducing the families’ welfare benefits. One method in the budget for increasing collections is to set up an operation to seize gambling winnings from delinquent child support debtors, which the Administration estimates will increase collections by \$709 million over five years. The net effects of the child support proposals increase federal spending by only \$2 million in 2004-2008 and \$221 million through 2013, compared with current law.
- ***Review Policy Reduces Supplemental Security Income and Medicaid Spending by \$194 Million*** — The budget establishes a standard for reviews and accuracy in SSI disability awards that parallels a policy within the Social Security Disability Insurance program. This provision reduces 2004 - 2008 spending in the SSI and Medicaid programs by \$91

million and \$103 million, respectively. Combined savings through 2013 are \$1.1 billion. Medicaid savings are credited to *Function 550 (Health)*.

- ***Low-Income Energy Assistance*** — The budget provides \$2.0 billion for the Low-Income Heating and Energy Assistance Program, the same as the 2002 enacted level. The Administration’s 2003 budget had reduced this funding by 17.6 percent, to \$1.7 billion.

## **Unemployment Insurance (UI)**

The Unemployment Insurance program is financed through a combination of state and federal taxes. State taxes pay for regular unemployment insurance benefits. Federal taxes currently support federal and state unemployment administration and retraining services, the federal government’s share of extended benefits for workers out of work more than 26 weeks, and loans to states that are unable to pay benefits because they have run out of funds.

- ***Cuts Federal Unemployment Taxes and Shifts Administrative Responsibility to States*** — The President’s budget again includes a package of changes to drastically reduce federal unemployment taxes and gradually give states responsibility for financing the administration of unemployment insurance. The budget reduces federal unemployment taxes paid by employers by 25 percent in 2005, with further reductions in subsequent years building to a 75 percent reduction in 2009. The budget also increases flexibility for states, provides transitional aid as states take on responsibility for administration, and changes the criteria for states to qualify for the Extended Benefits program, which is 50 percent funded by federal dollars.

The combined effect of these provisions reduces federal revenues by \$7.9 billion over five years and \$13.4 billion through 2013. The package increases mandatory spending relative to current law starting in 2007, totaling \$17.3 billion through 2013. The budget assumes a portion of this new spending would be offset by discretionary savings, since state administrative expenses will eventually no longer be funded through annual appropriations.

- ***Does Not Expand Federal Extended Benefits*** — The temporary program in current law that provides only 13 weeks of fully federally funded extended benefits to workers who exhaust their regular state unemployment benefits will start phasing out in June. The budget does not include any expansions of this program to help workers who have exhausted all federal UI benefits and remain unemployed. Instead, the budget includes \$3.6 billion over two years for “Personal Re-employment Accounts.”<sup>13</sup>

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<sup>13</sup> For further discussion of these accounts, see *Function 500 (Education, Training, Employment, and Social Services)*.

By contrast, the House Democratic Economic Stimulus Plan guarantees all jobless workers at least 26 weeks of extended benefits and expands access to unemployment benefits for workers who are low-wage earners or who work part time. The budget does not appear to address the ability of low-wage workers to qualify for assistance or related national concerns about the unemployment insurance program.

## Housing Assistance

The President's budget includes \$30.1 billion in funding for all discretionary housing assistance programs, which is \$1.4 billion less than the amount needed to maintain purchasing power at the 2002 enacted level. The budget compensates for some but not all of this shortfall by recapturing unobligated balances from prior years, as explained in the Section 8 discussion below.

- ***Eliminates Funding for Rehabilitation of Distressed Public Housing*** — The budget does not renew the HOPE VI program, which provides funding for rehabilitation and demolition of housing units identified as severely distressed. This program was funded at \$574 million in 2002; the budget provides no funding for 2004.
- ***Converts Section 8 Tenant-based Housing Assistance to a Block Grant*** — The budget converts Section 8 housing vouchers for low-income renters into a block grant program administered by states called "Housing Assistance for Needy Families," with 2004 serving as a transition year. Under this plan, the Department of Housing and Urban Development continues to administer project-based vouchers. The budget's funding for these two programs and related activities totals \$17.1 billion for 2004. Combined with a recapture of \$1.1 billion in unobligated balances, total funding for 2004 is sufficient to maintain purchasing power at the 2002 level and provide \$36 million for 5,500 incremental vouchers for persons with disabilities. However, since Congress has not yet passed 2003 appropriations, the availability of carryover from previous years' funding is unclear.

The policy of converting tenant-based vouchers to a block grant structure provides less funding for this program in future years than is assumed in projections of current law. For example, the budget includes \$18.6 billion for Section 8 programs in 2008, whereas CBO projects that more than \$20 billion will be needed in that year to maintain purchasing power at the 2002 enacted level and provide full funding to renew all expiring contracts.

- ***Erodes Public Housing Operating Fund*** — The budget provides \$3.6 billion to pay local public housing authorities for operating costs not covered by rental income. This level is \$40 million below the amount needed to maintain purchasing power at 2002 levels. This cut is further exacerbated by a \$250 million shortfall in 2002, caused by a HUD estimating error, that carried over into 2003 and negatively affects the current operating budgets for some public housing authorities. The budget does not include funding to address the 2002 shortfall.

- ***Cuts Funding for Critical Repairs to Public Housing*** — The budget includes \$2.6 billion for the public housing capital fund, which is a cut of \$299 million, or ten percent, from the amount needed to maintain purchasing power at 2002 levels.
- ***Erodes Funding for Housing for the Elderly and Disabled*** — The budget includes \$1.0 billion for programs that provide supportive housing and other housing assistance for elderly and disabled populations. The amount of funding included in the budget is \$35 million below the amount needed to maintain purchasing power at the 2002 level.
- ***Zeroes out Rural Housing and Economic Development*** — The budget eliminates this \$25 million program, which encourages new and innovative approaches to serve the housing and economic development needs of rural populations through grants to local community-based organizations.
- ***Increases Funding for Homeless Assistance*** — The budget provides \$1.3 billion for homeless assistance, an increase of \$164 million or 14.1 percent above the amount necessary to maintain purchasing power at the 2002 level. The budget also creates a new \$50 million competitive grant program, “Samaritan Housing,” to support promising local strategies for moving chronically homeless persons to permanent housing with supportive services.
- ***Increases Funding for HOME Investment Partnerships*** — The budget provides \$2.2 billion for expanding the supply and affordability of housing through construction, acquisition and rehabilitation, as well as providing rental assistance to tenants. The 2004 funding level is \$340 million above the amount necessary to maintain purchasing power at the 2002 level.

## **Nutrition Assistance**

- ***Reauthorizes National School Lunch Program and Requires Eligibility Verification*** — As part of the Administration’s reauthorization proposal for the Child Nutrition Act, the budget assumes unspecified savings by requiring families to provide documentation of their eligibility for the school lunch program. The budget states that total spending for the school lunch program will not change compared with projected spending under current law, because savings will be reinvested in the program for activities such as improving access for eligible children, evaluating the effect of program changes, and providing financial incentives to schools that serve meals meeting dietary guidelines.
- ***Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)*** — The budget includes \$4.8 billion in 2004 for WIC, enough to serve all 7.8 million people monthly who are estimated to be eligible and seeking services. This program is scheduled for reauthorization in 2004.

## Spending Associated with Tax Proposals

- ***Accelerates Child Tax Credit*** — The budget accelerates to 2003 the increase in the credit, from \$600 to \$1000, that is currently scheduled to phase in from 2005 to 2010. Because this credit is refundable, this proposal will increase spending by \$300 million in 2003 and \$18.5 billion from 2004 through 2008 compared with OMB's projections of spending under current law. The Administration proposes to deliver the \$400 increase in the child tax credit to qualifying taxpayers through advance refund checks.
- ***Permanent Extension of the Enacted Tax Cut*** — The budget increases spending for the refundable portions of the child tax credit and EITC by \$24.5 billion through 2013, compared with current law. This reflects costs associated with the permanent extension of the tax cut enacted in 2001.
- ***Earned Income Tax Credit*** — The budget includes \$100 million for a plan to reduce EITC overpayments. The plan is for claimants to provide additional information to the Internal Revenue Service to validate eligibility before payment. Much of the 2004 funding is for developing new business processes and supporting technology.

## General and Federal Retirement and Disability

- ***Federal Employees Compensation Act (FECA)*** — The budget again proposes to permit the Department of Labor to charge other federal agencies full costs of administering employee injury and illness claims.
- ***Federal Employees' Pay Raise*** — The budget increases federal civilian pay rates by 2.0 percent in January 2004, well below the average 4.1 percent pay raise for military personnel. This is also the second year that the budget has ignored the tradition of "pay parity" for civilian and military employees. This is less than the 2.7 percent base pay raise mandated by federal law. The formula that has been followed in recent years is that federal employees generally receive the across-the-board raise called for by the formula, plus an average 1 percent additional increase for the locality-based portion of the pay raise.
- ***Senior Executive Service (SES) Pay*** — The budget includes a plan to raise the salary cap of the Senior Executive Service members and eliminate the six-step ladder system. The SES pay would range from about \$102,000 to \$154,700. Political appointees will have the power to set executives' salaries at any amount within that range. Agencies would bear costs in their salaries and expenses accounts.

## **Mandatory**

- ***Black Lung Disability Trust Fund*** — The budget proposes to refinance the outstanding debt owed to the Treasury by extending the trust fund’s excise tax levels on coal and provide for a one-time appropriation to compensate the general fund for the loss of interest income.
- ***Annuities of Part-Time Civil Service Employees*** — The budget proposes to simplify the computation of annuities under the Civil Service Retirement System for employees with part-time service.

See *Function 950 (Undistributed Offsetting Receipts)* for further discussion of federal retirement programs.

## Function 650: Social Security

Function 650 includes mandatory spending to pay Social Security retirement and disability benefits to 45 million people, and appropriated funding to administer these programs.

- ***No Benefit or Payroll Tax Changes*** — The President’s budget proposes no changes for Social Security benefits or payroll taxes.
- ***President’s Budget Makes Long-Term Reform Impossible*** — As pointed out by the President’s hand-picked Social Security privatization commission last year, the Administration’s intention to replace Social Security with private accounts invested in the stock market is inconsistent with the budget’s projection of deficits for years to come. Reforming Social Security for the long-term, whether or not it is based on privatization, requires resources from outside of Social Security, and the President’s budget squanders those resources.

See *Overview* for further discussion.

## Function 700: Veterans Benefits and Services

Function 700 includes the programs of the Department of Veterans Affairs (VA) such as veterans compensation and pensions, education and rehabilitation benefits, medical care, and housing programs.

### Discretionary Programs

For 2004, the President's budget provides \$28.2 billion for appropriated veterans programs. This amount is \$2.6 billion, or 10.1 percent, more than needed to maintain purchasing power at the 2002 level. Over the five-year period (2004-2008), the budget increases funding for appropriated programs for veterans by \$9.2 billion, or 6.8 percent, compared with that level.

- ***Hospital and Medical Care*** — The President's budget includes \$26.2 billion for 2004 for veterans medical care and hospital services, including \$1.2 billion in medical collections. This represents an increase of \$2.4 billion over the amount needed to maintain purchasing power at the 2002 level. The budget relies on \$1.1 billion in "management savings" such as competitive sourcing to offset the overall cost of health care.
- ***Stop Enrollment of New Priority 8 Veterans*** — On January 17, 2003, VA stopped enrolling Priority 8 veterans (those with higher annual incomes) for medical care. The budget continues this policy. According to VA budget documents, this policy will save \$371 million in 2004 and yields five-year savings of \$5.1 billion.
- ***Enrollment fee for Priority Level 7 and 8 Veterans*** — The budget imposes a \$250 annual enrollment fee for medical care on nonservice-connected Priority 7 (higher income, non-service-connected) veterans and all Priority 8 veterans. The budget assumes five-year savings of \$1.3 billion from this proposal.

### Mandatory Programs

- ***Allen Decision*** — The President's budget assumes savings of \$1.8 billion over five years from proposed legislation reversing the 2001 *Allen v. Principi* decision that allowed disability compensation for veterans suffering from substance abuse if the condition was determined to be secondary to a service-connected disability. Last year CBO estimated the five-year savings from similar legislation at just \$58 million.

## Function 750: Administration of Justice

The Administration of Justice function consists of federal law enforcement programs, litigation and judicial activities, correctional operations, and state and local justice assistance. Agencies that administer programs within this function include the following: the Federal Bureau of Investigation (FBI); the Drug Enforcement Administration (DEA); the Immigration and Naturalization Service (INS); the United States Customs Service; the Bureau of Alcohol, Tobacco, and Firearms (ATF); the United States Attorneys; legal divisions within the Department of Justice; the Legal Services Corporation; the Federal Judiciary; and the Federal Bureau of Prisons.

The President's budget provides \$34.1 billion in discretionary funds for the Administration of Justice function for 2004, a \$2.5 billion decrease below the level needed to maintain purchasing power at the 2002 level, which included approximately \$3.0 billion in supplemental disaster relief. Therefore, excluding the disaster relief levels, the budget funds Administration of Justice programs at the 2002 level.

While the budget provides slight increases for some federal law enforcement programs in this function, specifically those programs tied to Homeland Security, it significantly cuts state and local law enforcement programs in order to fund state and local preparedness initiatives under Function 450 (Community and Regional Development).

- ***Community Oriented Policing Services (COPS) Cuts*** — The Community Oriented Policing Services provides grants and other assistance to help communities hire, train, and retain police officers and improve law enforcement technologies. The budget slashes the COPS program, providing only \$158 million, a \$929 million (85.5 percent) cut below the level needed to maintain purchasing power at the 2002 level.
- ***State and Local Criminal Justice and Juvenile Justice Eliminations and Cuts*** — State and local criminal justice and juvenile justice assistance programs center on combating and deterring crime. The budget eliminates most of these programs, while slightly increasing funding for federal law enforcement and directing resources to state and local terrorism preparedness initiatives under the Homeland Security Department.

The eliminations include the following: Edward Byrne formula and discretionary grants; Violence Against Women Act programs; the State Criminal Alien Assistance Program; the Juvenile Justice Incentive Block Grant program; and Local Law Enforcement Block Grants. These programs would require approximately \$2.5 billion in 2004 to maintain purchasing power at the 2002 level.

— ***Office of Justice Increases*** — The Office of Justice programs coordinate and manage policies and activities for the Bureau of Justice Assistance, Bureau of Justice

Statistics, National Institute of Justice, Office of Juvenile Justice and Delinquency Prevention, and the Office for Victims of Crime. The budget provides \$2.1 billion for Office of Justice programs, a \$1.3 billion (58.9 percent) increase over the level needed to maintain purchasing power at the 2002 level (this level included approximately \$414 million in supplemental disaster relief funds). The budget increases go toward initiatives such as counterterrorism research and development, state and local criminal assistance programs, substance abuse programs, and juvenile justice assistance.

- ***Federal Law Enforcement Agencies*** — The budget provides \$17.6 billion for federal law enforcement programs, a \$100 million increase over the level needed to maintain purchasing power at the 2002 level. The 2002 level includes approximately \$2.1 billion in supplemental disaster relief. Excluding the supplemental funding, the budget increases federal law enforcement by \$2.2 billion over the 2002 purchasing power level. Federal law enforcement programs include agencies such as the FBI, the United States Customs Service, the United States Secret Service, the INS, and Civil Rights Enforcement Departments.
  - ***Drug Enforcement Administration Cut*** — While the budget maintains funding for most federal law enforcement programs at the amount needed to maintain the 2002 level, the budget cuts funding for DEA. The DEA enforces laws relating to illicit drug manufacturing and distribution. The budget provides \$1.6 billion for the DEA, a \$12 million cut below the level needed to maintain purchasing power at the 2002 level.
  - ***Civil Rights Law Enforcement*** — The budget provides \$335 million for the Equal Employment Opportunity Commission (EEOC), a \$3 million increase over the 2002 purchasing power level. It provides \$50 million for Fair Housing and Equal Opportunity Activities, a \$2 million increase over the 2002 purchasing power level. The budget provides \$91 million for the Department of Education’s Office for Civil Rights, a \$5 million increase above the 2002 purchasing power level. The budget, however, provides \$9 million for the Commission on Civil Rights, a \$1 million cut below the 2002 level.
- ***Legal Services Corporation Cut*** — The Legal Services Corporation provides free legal assistance for people living in poverty. The President’s budget provides \$329 million for the Legal Services Corporation, an \$11 million (3.2 percent) cut below the level needed to maintain purchasing power at the 2002 level.
- ***United States Attorneys Increases*** — The budget provides \$1.6 billion for United States Attorneys, a \$100 million increase over the 2002 purchasing power level.

## Function 800: General Government

This function includes the activities of the White House and the Executive Office of the President, the legislative branch, and programs designed to carry out the legislative and administrative responsibilities of the federal government, including personnel management, fiscal operations, and property control.

The President's budget provides \$17.8 billion in appropriations for the general government, \$1.2 billion above the level needed to maintain constant purchasing power at the 2002 level.

- **Legislative Branch** — The budget includes \$3.2 billion, \$268 million above the level needed to maintain constant purchasing power at the 2002 level, for the Legislative Branch. The funding is for the operations of the House and Senate as well as support agencies such as the General Accounting Office, the Library of Congress, and the CBO.
- **Executive Office of the President** — The budget provides the Executive Office of the President (EXOP) with \$340 million, which is \$8 million or 2.4 percent above the level needed to maintain constant purchasing power at the 2002 level. This includes \$77 million for OMB, which is an 8.4 percent increase over the Administration's estimated 2003 enacted level. The EXOP also includes the White House and supporting agencies such as the National Security Council and Council of Economic Advisors.
- **Internal Revenue Service (IRS)** — The budget includes \$10.0 billion for the Internal Revenue Service, an increase of \$195 million above the level needed to maintain constant purchasing power at the 2002 level.
- **District of Columbia** — The budget includes \$237 million for the District of Columbia's criminal justice system and economic development, which is \$222 million below the level needed to maintain constant purchasing power at the 2002 level. However, 2002 included \$207 million in supplemental funding for emergency planning and security costs.
- **Human Capital Performance Fund** — The budget creates a \$500 million fund to be used by agencies for performance-based raises.
- **Election Assistance Commission** — The budget includes \$500 million for the Election Assistance Commission to purchase modern voting equipment.

### Mandatory

- **Financial Agent Services** — The budget provides a new permanent appropriation of \$386 million in 2004 and \$2.0 billion over five years (2004-2008) to the Financial

Management Service to reimburse financial institutions for their services as depositories and fiscal agents for the public. These services include the acceptance and processing of deposits of public money as well as disbursement of and accounting for public monies.

- ***IRS Collection Contractor Support*** — The budget provides \$2 million in 2004 and \$536 million over five years in new spending to allow the Internal Revenue Service to employ private collection agents to help collect known tax debt.
- ***Payment to Alaska*** — The budget includes \$1.2 billion in 2005 and \$1.3 billion over five years in mandatory spending for payments to Alaska for drilling in the Arctic National Wildlife Refuge. See *Function 950 (Undistributed Offsetting Receipts)* and *Function 300 (Natural Resources)* for further discussion.
- ***Internal Revenue Collections for Puerto Rico*** — The budget extends for three years the higher payments it makes to Puerto Rico and the Virgin Islands based on excise taxes on rum imported from places other than Puerto Rico and the Virgin Islands. This costs \$154 million over three years (2004 - 2006).

## Function 920: Allowances

This function includes a spectrum relocation fund and funding for adjustments to the legislative and judicial branches' requests.

- ***Adjustments to the Legislative and Judicial Branches' Requests*** — The budget includes cuts of \$288 million for 2004 and \$1.5 billion over the five-year period (2004-2008) from adjustments to the legislative and judicial branch accounts for excessive funding requests. Each year, these branches make a request to OMB to cover their funding needs. OMB, in turn, adjusts the overall funding level to better reflect the historical funding levels for these branches of government. However, these reductions are reflected in this function rather than in the budget functions that contain the judicial and legislative branches to maintain comity among the three branches of government.
- ***Spectrum Relocation Fund*** — Some portions of the spectrum currently occupied by federal agencies have been reallocated for auction to commercial users. To expedite the federal agencies' relocation from this spectrum, the budget establishes a new fund. Auction receipts collected under current law will be paid into the fund in amounts sufficient to cover agency relocation costs. These costs will then be paid out of the fund without further appropriation. The fund will cost \$1.7 billion in mandatory spending over the next five years. Last year's budget contained a similar proposal, which was not adopted by the Congress.

## Function 950: Undistributed Offsetting Receipts

This function comprises major offsetting receipt items that would distort the funding levels of other functional categories if they were distributed to them. This function currently includes three major items: rents and royalties from the Outer Continental Shelf (OCS); the receipt of agency payments for the employer share of federal employee retirement benefits; and other offsetting receipts, such as those obtained from broadcast spectrum auctions by the Federal Communications Commission (FCC).

Offsetting receipts are recorded as “negative outlays” either because they represent voluntary payments to the government in return for goods or services (e.g., OCS royalties and spectrum receipts) or because they represent the receipt by one government agency of a payment made by another.

In 2004, the budget assumes offsetting receipts of \$53.7 billion. Over the five-year period (2004-2008), the budget assumes offsetting receipts of \$324.1 million.

- ***Federal Employee Retirement System*** — For 2004, federal agencies will pay \$39.5 billion to the federal employee retirement funds (the Civil Service Retirement System, Military Retirement System, and Federal Employees Retirement System). Employers also make payments to the Medicare Health Insurance Trust Fund and the Social Security Trust Funds on behalf of federal employees. As employees’ pay increases, agencies are required to increase their payments to these funds.
- ***Federal Employees’ Pay Raise*** — The budget increases federal civilian pay rates by 2.0 percent in January 2004, well below the average 4.1 percent pay raise for military personnel. This is also the second year that the budget has ignored the tradition of “pay parity” for civilian and military employees. This is less than the 2.7 percent base pay raise mandated by federal law. The formula that has been followed in recent years is that federal employees generally receive the across-the-board raise called for by the formula, plus an average 1 percent additional increase for the locality-based portion of the pay raise.
- ***Senior Executive Service (SES) Pay*** — The budget includes a plan to raise the salary cap of the Senior Executive Service members and eliminate the six-step ladder system. The SES pay would range from about \$102,000 to \$154,700. Political appointees will have the power to set executives’ salaries at any amount within that range. Agencies would bear costs in their salaries and expenses accounts.
- ***Postal Service Payments to the Civil Service Retirement System (CSRS)*** — The budget reduces postal service payments to the CSRS by \$2.7 billion in 2004 and \$14.9 billion over a five-year period (2004-2008). Legislation was sent to Congress in November to

address what will be considered overpayment by the postal service to cover unfunded liabilities of pension benefits for postal employees under CSRS. In January, CBO estimated that this proposal will increase the deficit by \$3.5 billion in 2003 and \$15.2 billion over the five-year period (2004-2008).

- ***Accrual Accounting of Federal Retiree Costs*** — The budget again proposes legislation to require agencies to pay upfront all retirement pension and health costs for all federal employees. Under current federal accounting procedures, these retirement costs are future mandatory payments and do not show up in agency costs. Although the costs are noted in the Appendix of the 2004 budget, they do not show up in the overall budget totals. Pending approved legislation, the budget changes this practice so that each agency shows these retirement costs as current discretionary costs, therefore increasing the need for discretionary appropriations to cover these payments.

## **Mandatory**

- ***Arctic National Wildlife Refuge Lease Receipts*** — The budget assumes the opening of the Arctic National Wildlife Refuge (ANWR) for oil drilling to supplement the funding for renewable and related energy research. The budget assumes leasing begins in 2005, generating \$2.4 billion in receipts, with \$1.2 billion to be spent on alternative energy programs over the following seven years. See *Function 270 (Energy)* and *Function 300 (Natural Resources and Environment)* for further details.
- ***Analog Spectrum Lease Fee*** — The budget establishes a \$500 million annual lease fee on the use of analog spectrum by commercial broadcasters beginning in 2007. Individual broadcasters will be exempt from the fee upon returning their analog spectrum licenses to the Federal Communications Commission (FCC) (and thus completing their transition from analog to digital broadcasting). A similar proposal was made in last year's budget, but not adopted. The fee is expected to generate \$1.0 billion over the next five years and \$2.5 billion over the next ten years.
- ***Spectrum Auction Authority and Spectrum License User Fee*** — The budget indefinitely extends the FCC's authority to auction spectrum. This authority currently expires at the end of 2007. The budget also allows the FCC to set user fees on unauctioned spectrum licenses. These two proposals are expected to cost a total of \$3.8 billion over the next five years, but to generate \$4.1 billion over the next ten years.

## Surplus Declines \$7.8 Trillion Under Administration Policies

Unified Budget Surplus, Trillions of Dollars

	<b>2002-2011</b>
February 2001 Base	5.644
July 2001	3.113
February 2002	0.739
July 2002	0.444
February 2003	-2.122

Prepared by the Democratic Staff of the House Budget Committee

Source: CBO Baseline, OMB Policies

02/03/03

## Current Budget Spends Entire Social Security Surplus

On-Budget Surplus, Trillions of Dollars

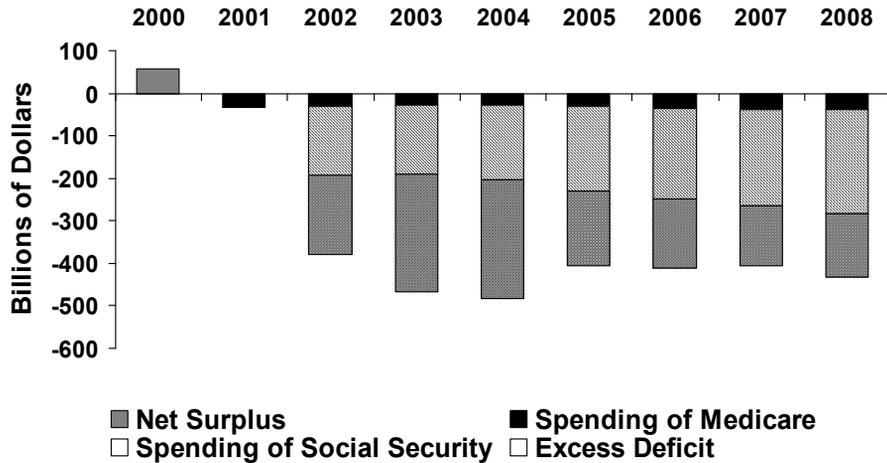
	<b>2002-2011</b>
February 2001 Base	3.053
July 2001	0.575
February 2002	-1.651
July 2002	-1.968
February 2003	-4.363

Prepared by the Democratic Staff of the House Budget Committee

Source: CBO Baseline, OMB Policies

02/03/03

# Bush's New Policies Spend Social Security and Medicare



Prepared by the Democratic Staff of the House Budget Committee

Source: OMB

02/03/03

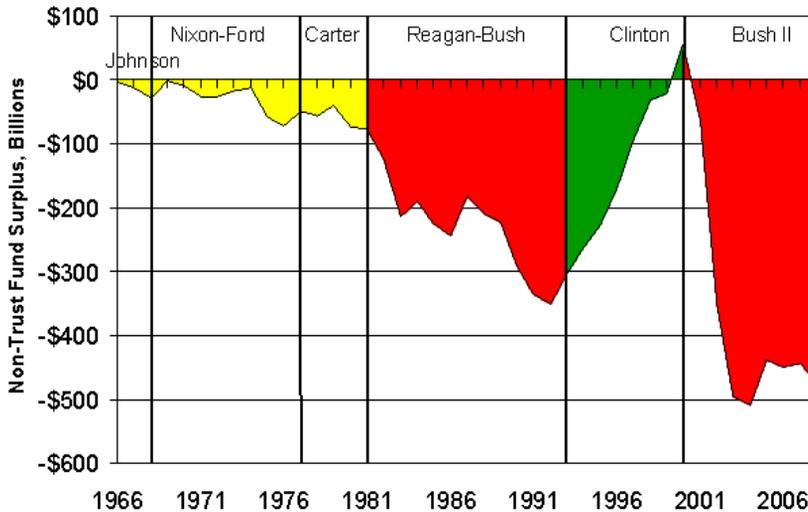
[We have] returned to an era of deficits... [but]...We ought not hyperventilate about this issue.

OMB Director Mitch Daniels  
January 2003

Prepared by the House Budget Committee Democratic Staff

02/03/03

## A Fiscal Opportunity Lost



Prepared by the Democratic Staff of the House Budget Committee

Source: OMB

02/3/03

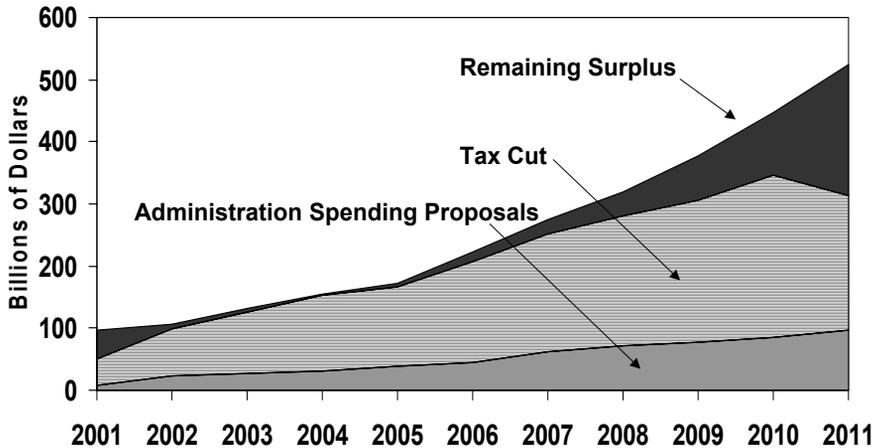
History suggests that an abandonment of fiscal discipline will eventually push up interest rates, crowd out capital spending, lower productivity growth, and force harder choices upon us in the future.

Fed Chairman Alan Greenspan  
September 12, 2002

Prepared by the House Budget Committee Democratic Staff

02/03/03

## First Administration Budget Left No Margin for Error



April 2001 Projection of Non-Medicare, Non-Social Security Surplus;  
Tax and Spending Proposals in House-Passed Budget Resolution for FY2002

Prepared by the Democratic Staff of the House Budget Committee

updated 10/28/02

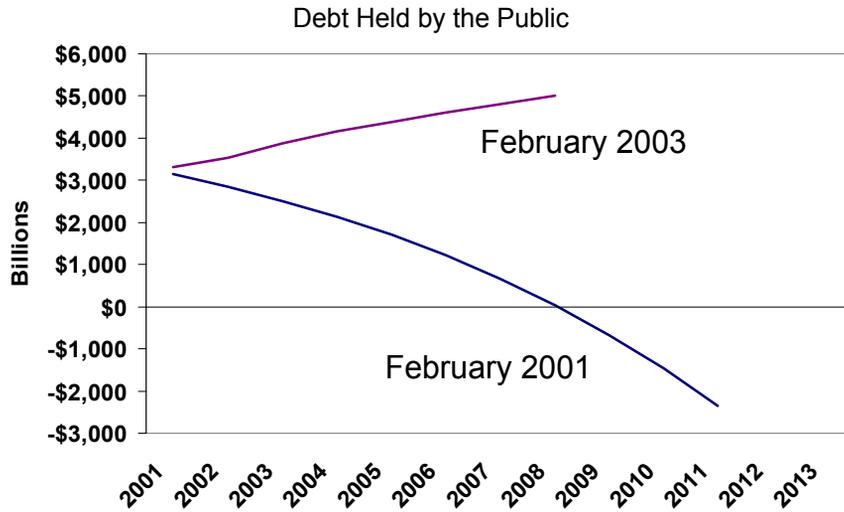
## The Bush Administration's \$4.4 Trillion Tax Agenda

	<u>2001 – 2013</u>
2001 Tax Cut	\$1.349 Trillion
March 2002 Stimulus Package	\$0.042 Trillion
January 2003 "Growth" Package	\$0.615 Trillion
Other Tax Cuts in Budget	\$0.692 Trillion
Protect Middle Class from AMT	\$0.681 Trillion
<b>Direct Effect of Bush Agenda</b>	<b>\$3.379 Trillion</b>
+ Increased Debt Service	\$1.000 Trillion
<b>TOTAL IMPACT ON DEFICIT</b>	<b>\$4.379 Trillion</b>

Prepared by the House Budget Committee Democratic Staff

02/03/03

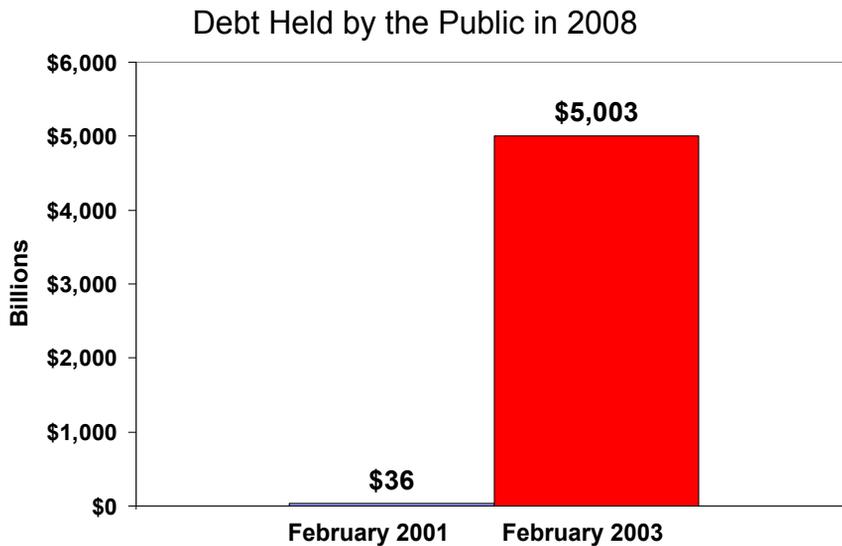
## Bush Policies Create \$5 Trillion Debt by 2008



Prepared by the House Budget Committee Democratic Staff

02/03/03

## Bush Policies Create \$5 Trillion More In Debt

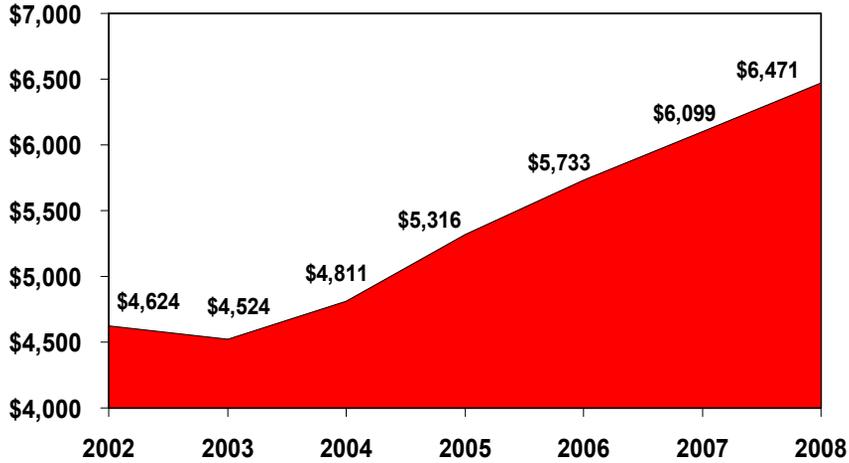


Prepared by the House Budget Committee Democratic Staff

02/03/03

# The Debt Tax

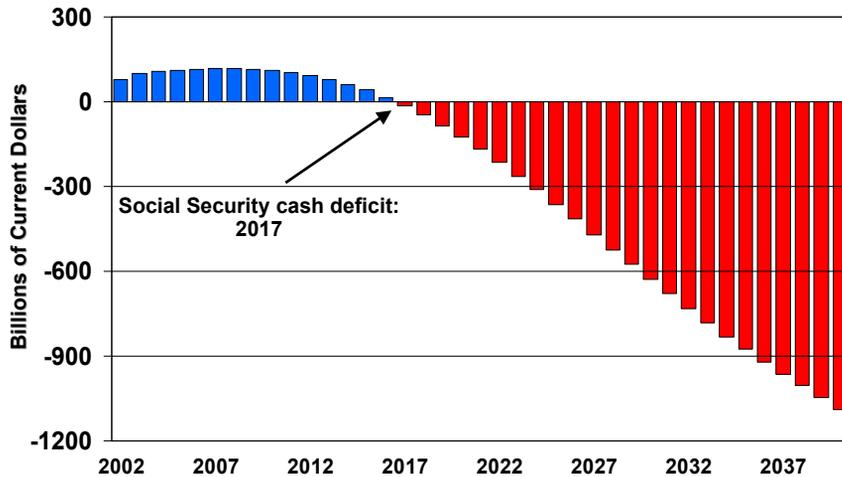
## Federal Gross Interest Per Family Of Four



Prepared by the House Budget Committee Democratic Staff

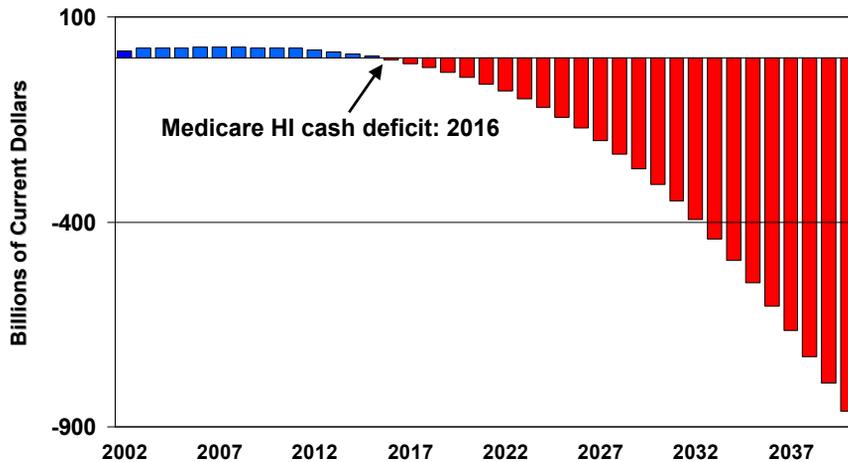
02/05/03

## Social Security Trust Funds Face Cash Deficit as Baby Boomers Retire



Source: SSA

## Medicare Trust Fund Faces Cash Deficit as Baby Boomers Retire



Source: SSA

## John Snow's Recipe for a Bright Future

**“A balanced federal budget is the best choice to ensure a bright future for the nation's economy.”**

John Snow, “Balanced Federal Budget Would Benefit Americans in Many Ways,” Richmond Times Dispatch, November 13, 1995

## John Snow on Fiscal Discipline

“A credible, sustained reduction in federal deficits, leading to a balanced budget, will bring major economic benefits. As the government spends less and borrows less from investors to cover declining deficits, more capital will be available for investment in the private sector of the economy. Inflationary pressure will ease and interest rates will respond by declining as much as two percentage points.”

John Snow, “Balanced Federal Budget Would Benefit Americans in Many Ways,” *Richmond Times Dispatch*, November 13, 1995

## Budget Deficits, 2002 – 2008

(Billions of Dollars)

	'02	'03	'04	'05	'06	'07	'08	'04-'08
<b>On-Budget Deficit</b>	-317	-468	-482	-407	-412	-406	-433	-2,140
<b>Social Security Surplus</b>	160	163	175	199	211	228	243	1,056
<i>Unified Deficit</i>	-158	-304	-307	-208	-201	-178	-190	-1,084

## January 2001 Baseline to February 2003 Current Policy

Billions of Dollars

	2002	2003	2004	'02-'11
<b>April 2001 Baseline Surplus</b>	283	334	387	5,637
<b>Economic adjustments</b>	-284	-352	-292	-3,174
<b>Adjusted Surplus</b>				2,463
<b>Enacted Policy (with debt service):</b>				
<b>Tax Cuts</b>	-41	-94	-120	-1,491
<b>Stimulus</b>	-59	-41	-31	-79
<b>Other Enacted Legislation</b>	-57	-110	-104	-1,022
<b>Subtotal: Enacted Policies</b>				2,592
<b>Current Baseline</b>	-158	-264	-158	-129
<b>FY '04 Budget Proposals</b>		-40	-149	-1,993
<b>Budget Deficits</b>	<b>-158</b>	<b>-304</b>	<b>-307</b>	<b>-2,122</b>

Prepared by the Democratic Staff of the House Budget Committee

Source: CBO Baseline, OMB Policies

02/03/03